

# **City of Kelso, Washington**

## **Comprehensive Annual Financial Report**



**For the fiscal year ended December 31, 2011**

**Prepared by the Finance Department**

**Brian Butterfield  
Finance Director**

**Accounting Staff  
Patty Murray  
Tami Sutherby  
Lisa Wetle**

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City of Kelso  
Comprehensive Annual Financial Report  
For the Fiscal Year Ended December 31, 2011

TABLE OF CONTENTS

INTRODUCTORY SECTION

Letter of Transmittal .....	3
GFOA Certificate of Achievement .....	8
Organization Chart.....	9
List of Elected and Appointed Officials .....	10

FINANCIAL SECTION

Independent Auditor's Report.....	12
Management's Discussion and Analysis .....	15
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets .....	28
Statement of Activities.....	29
Fund Financial Statements:	
Balance Sheet – Governmental Funds .....	30
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds .....	31
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund balances of Governmental Funds to the Statement of Activities.....	32
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund .....	33
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Arterial Street Fund .....	34
Statement of Net Assets – Proprietary Funds .....	36
Statement of Revenues, Expenses, and changes in Fund Net Assets – Proprietary Funds .....	38
Statement of Cash Flows – Proprietary Funds.....	39
Statement of Fiduciary Net Assets – Fiduciary Funds.....	40
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds.....	41
Notes to the Financial Statements.....	43
Required Supplementary Information:	
Schedules of Funding Progress and Employer Contributions – Firemen's Pension Fund .....	80
Combining and Individual Fund Statements and Schedules:	
Combining Balance Sheet – Nonmajor Governmental Funds .....	84
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds .....	86
Schedules of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual:	
G.O. Bond Debt Service Fund .....	88

Street Fund .....	89
Library Fund .....	90
Kelso Station Fund.....	91
Parks and Recreation Fund .....	92
Façade Improvement Fund .....	93
Paths and Trails Fund.....	94
Stadium Fund .....	95
Highlander Festival Fund.....	96
Tam O'Shanter Park Fund .....	97
Hud Block Grant Fund.....	98
Criminal Justice Fund .....	99
Capital Projects Fund.....	100

## STATISTICAL SECTION

Net Assets by Component.....	103
Changes in Net Assets .....	104
Governmental Activities Tax Revenues by Source .....	106
Fund Balances of Governmental Funds.....	107
Changes in Fund Balances of Governmental Funds .....	108
General Governmental Tax Revenues by Source .....	109
Assessed Value and Estimated Actual Value of Taxable Property .....	110
Property Tax Rates – Direct and Overlapping Governments .....	111
Principal Property Taxpayers.....	112
Principal Sales Taxpayers .....	113
Principal Utility Taxpayers .....	114
Property Tax Levies and Collections.....	115
Ratio of Outstanding Debt by Type.....	116
Ratios of General Bonded Debt Outstanding.....	117
Direct and Overlapping Governmental Activities Debt.....	118
Legal Debt Margin Information.....	119
Pledged Revenue Coverage .....	120
Demographic and Economic Statistics .....	121
Principal Employers.....	122
Full-time Equivalent City Government Employees by Function .....	123
Operating Indicators by Function .....	124
Capital Asset Statistics by Function .....	125

# **INTRODUCTORY SECTION**

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# City of Kelso



Finance & Utility Department 203 S Pacific, Suite 102 P.O. Box 819 360-423-0900 fax 360-425-9807  
Kelso, Washington 98626

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June 27, 2012

To the Honorable David Fletcher, Mayor  
Members of the City Council  
Denny Richards, City Manager  
Citizens of the City of Kelso

State law requires that all local governments publish within 150 days of the close of each fiscal year financial statements covering the full period of each fiscal year, in accordance with the forms and methods prescribed by the Washington State Auditor's Office. In addition to the State reporting requirements, the City has chosen to issue our financial report in conformity with generally accepted accounting practices (GAAP) and hereby submit this comprehensive annual financial report (CAFR) of the City of Kelso for the fiscal year ended December 31, 2011.

This report consists of management's representations concerning the finances of the City of Kelso (City). Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Kelso's financial statements have been audited by the Washington State Auditor's Office. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended December 31, 2011, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an

unqualified opinion that the City of Kelso's financial statements for the fiscal year ended December 31, 2011, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

## **Profile of the Government**

The City of Kelso, incorporated in 1889, is located in southwestern Washington on the Cowlitz River, approximately 127 miles south of the City of Seattle, Washington and 50 miles north of the City of Portland, Oregon. The City, which serves as the Cowlitz County seat, lies adjacent to the City of Longview. Together, these two cities comprise of the Kelso/Longview metropolitan area, the major population center of Cowlitz County. The City of Kelso currently occupies a land area of 8 square miles and serves a population of 11,920.

The City of Kelso operates under the Council-Manager form of government. The Council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring both the City Manager and Attorney. The City Manager is responsible for carrying out the policies and ordinances of the Council, for overseeing the day-to-day operations of the City, and for appointing the heads of the various departments. The Council is elected via City-wide vote. Council members serve four-year staggered terms, with three/four Council members elected every two years. The City Council elects a Mayor from the Council membership for a two-year term.

The City of Kelso provides a full range of services, including police, fire protection (City contracts with Cowlitz County Fire District No. 2), refuse removal (City contracts with Waste Control Equipment Inc.), a municipal airport, street maintenance, transit system (City contracts with Community Urban Bus System ("CUBS")), water and sewer utilities, library services, and parks and recreation facilities.

Cities and counties of the State of Washington must comply with the Budgeting, Accounting, and Reporting System (BARS) prescribed by the Office of the State Auditor as authorized under RCW 43.09.200 and RCW 43.09.230. State law also provides for annual independent audits by the Washington State Auditor's Office and requires timely submission of annual financial reports to the State for review. The financial system of the City of Kelso incorporates a system of financial and administrative controls that ensure the safeguarding of assets and the reliability of financial reports. Consequently they are designed to provide reasonable assurance that transactions are executed in accordance with management authorization, recorded in conformity with GAAP, that accountability of control over assets and obligations exists, and that sufficient reporting and review exists to provide adequate information for analysis and comparability of data.

Internal control is an area of audit by the State Auditor as well and City management takes action upon recommendations made by the State.

The City of Kelso prepares a biennial budget in accordance with RCW 35.A.34. The biennial budget serves as the foundation for the City's financial planning and control. The budget process begins in mid summer of even-numbered years. All departments of the City are required to submit requests for appropriation to the City Clerk on or before the fourth Monday in September. The City Manager uses these requests as the starting point for developing a proposed budget. The City Manager then submits the proposed budget to the City Council for review prior to November 1. The City Council is required to hold public hearings on the proposed budget and to adopt a final budget by no later than December 31, the close of the City's fiscal year. The appropriated budget is prepared by fund. The City Manager is authorized to transfer budgeted amounts between departments within any fund and object classes within departments; however, any revisions that alter the total expenditures of a fund must be approved by the Council. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general and arterial street funds this comparison is presented on pages 33-34 as part of the basic financial statements for the governmental funds. For governmental funds, other than those previously mentioned, with appropriated annual budgets, this comparison is presented in the governmental fund subsection of this report, which starts on page 88.

### **Factors Affecting Financial Condition**

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Kelso operates.

**Local economy.** Kelso's economy is predominately retail, commercial and service oriented. The largest employers in the City include Foster Farms Poultry Processing Plant, Cowlitz County, and Kelso School District. The City also has a mall that encompasses over 420,000 square feet and includes three anchor stores; Macy's, J.C. Penney, and Sears. Additional employment is provided by regional employers such as Longview Fibre Company, PeaceHealth/St. John's Hospital, and Weyerhaeuser Company which are located in neighboring Longview, Washington.

The economy of the region is based on a mixture of industrial, commercial and service activity. Wood and paper products processing, steel processing, trade and port activity, as well as healthcare, make up the economic foundation of the area. The economy as whole has become more diversified in recent years, but remains materially dependent on the forest products industry and, as a result, is relatively vulnerable to the cyclical downturns of that industry. The average unemployment rate for the Kelso/Longview metropolitan area in 2011 was 12.1 percent compared with state and national rates of 9.2 percent and 8.9 percent, respectively.

**Long-term financial planning.** As always the City of Kelso will strive to continue providing basic services at current levels. Funding priorities for long-term operating and capital needs are reviewed and updated annually during the budget process and again at the council retreat. Over the past decade the City has been particularly successful in obtaining grants and low interest loans for the upgrade of roadway and utility infrastructure. One of the primary goals of the City is to upgrade its infrastructure to help attract new business to the region which, in turn, will increase our tax base.

### **Acknowledgements**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Kelso for its comprehensive annual financial report (CAFR) for the fiscal year ended December 31, 2010. This was the seventh consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

The preparation of this Comprehensive Annual Financial Report represents the culmination of months of concerted teamwork and could not have been accomplished without the professional, efficient and dedicated staff of the Finance Department. To each, I share my sincerest appreciation.

Credit also must be given to the Mayor and the City Council for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Kelso's finances.

Respectfully submitted,

Brian Butterfield  
Finance Director

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# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Kelso  
Washington

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
December 31, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



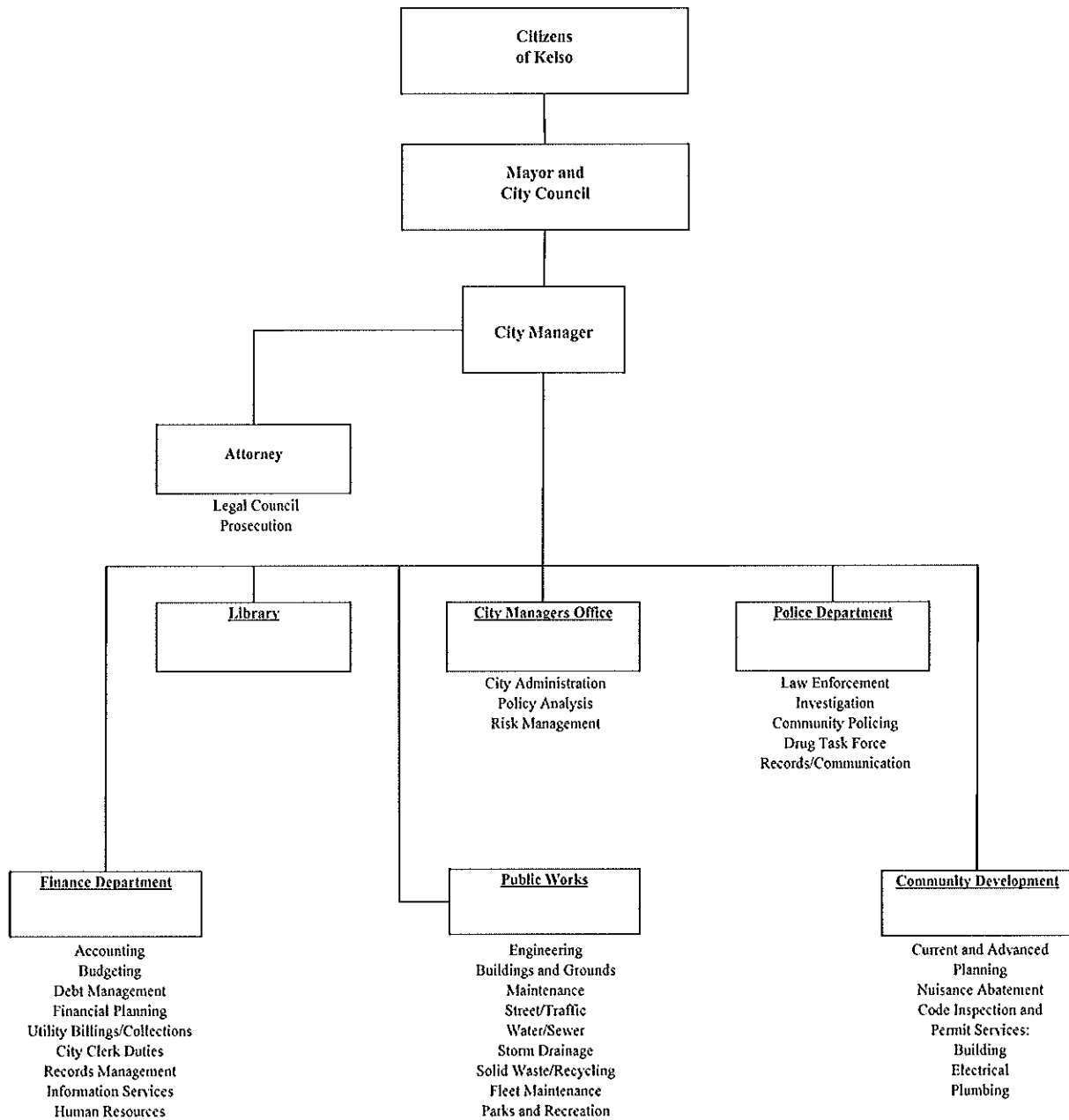
*Linda C. Sandson*

President

*Jeffrey R. Egan*

Executive Director

# City Of Kelso Organizational Chart



# City of Kelso

## Directory of Officials

December 31, 2011

### Elected Officials

Mayor

David Futchner

Council Members

Todd McDaniel

Dan Myers

Rick Roberson

Gary Schimmel

James Webb\*

Kim Lefebvre

### Appointed Officials

City Manager

Dennis Richards

City Attorney

Jeaneen Parker

Clerk / Finance Director

Brian Butterfield

Public Works Director

David Sypher

Police Chief

Andy Hamilton

Community Development Manager

Nancy Malone

\* Replaced by Gary Archer effective 1/1/2012.

# **FINANCIAL SECTION**

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## Management's Discussion and Analysis

As management of the City of Kelso, we offer readers of the City of Kelso's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2011. We encourage readers to consider the information presented in conjunction with additional information that we have furnished in our letter of transmittal. All amounts reported in the MD&A, unless otherwise indicated, are expressed in thousands of dollars.

### Financial Highlights

- The assets of the City of Kelso exceeded its liabilities at the close of the most recent fiscal year by \$79,655 (net assets). Capital assets, net of depreciation and related debt, account for \$68,562 or 86.1% of total net assets. \$9,616 or 12.1% of total net assets (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$915 during 2011.
- As of the close of the current fiscal year, the City of Kelso's governmental funds reported combined ending fund balances of \$4,268, a decrease of \$120 in comparison with the prior year. Approximately 45% of this amount, \$1,911, is available for spending at the government's discretion (unrestricted fund balance).
- At the end of the current fiscal year, unrestricted fund balance for the general fund was \$1,577, or 19 percent of total general fund expenditures.
- The City of Kelso's total debt (exclusive of compensated absences) decreased by \$470 during the current fiscal year.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Kelso's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of

related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, security of persons and property, physical environment, transportation, economic environment, and culture and recreation. The business-type activities of the City include a water/sewer enterprise, a solid waste enterprise, a storm water drainage enterprise, and an airport.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Kelso, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Kelso maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheets and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the arterial street fund, and the G.O. bond fund, which are considered to be major funds. Data from the other seven governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Kelso adopts a biennial appropriated budget for all of its governmental funds. Budgetary comparison statements have been provided for these funds to demonstrate compliance with this budget.

**Proprietary funds.** The City of Kelso maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water/sewer and solid waste departments, its airport, and for its storm water drainage department. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for the acquisition of its vehicle fleet. A portion of the acquisition fund has been included within the business-type functions. The remainder of these services predominantly benefit governmental rather than business-type functions and have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water/sewer, solid waste, and storm water drainage departments, as well as, the City's airport. However, only the water/sewer and solid waste funds are considered to be major funds of the City. The internal service fund is also presented separately in the proprietary fund financial statements.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents the combining statements, referred to earlier in connection with nonmajor governmental funds, which are presented immediately following the notes.

### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a City's financial position. In the case of the City of Kelso, assets exceeded liabilities by \$79,655 at the close of the most recent fiscal year. The following is a condensed version of the Government-Wide Statement of Net Assets as of December 31, 2011 with comparable data provided for the previous year.

### City of Kelso's Net Assets

	Governmental activities		Business-type activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$6,059	\$5,935	\$ 8,537	\$11,262	\$14,596	\$17,197
Capital assets (net)	<u>50,690</u>	<u>51,054</u>	<u>27,776</u>	<u>23,772</u>	<u>78,466</u>	<u>74,826</u>
Total assets	<u>56,749</u>	<u>56,989</u>	<u>36,313</u>	<u>35,034</u>	<u>93,062</u>	<u>92,023</u>
Long-term liabilities outstanding	4,230	4,130	7,081	7,454	11,311	11,584
Other liabilities	<u>481</u>	<u>722</u>	<u>1,615</u>	<u>977</u>	<u>2,096</u>	<u>1,699</u>
Total liabilities	<u>4,711</u>	<u>4,852</u>	<u>8,696</u>	<u>8,431</u>	<u>13,407</u>	<u>13,283</u>
Net assets:						
Invested in capital assets, net of related debt	47,753	48,034	20,809	20,893	68,562	68,927
Restricted	885	1,302	592	591	1,477	1,893
Unrestricted	<u>3,400</u>	<u>2,801</u>	<u>6,216</u>	<u>5,119</u>	<u>9,616</u>	<u>7,920</u>
Total net assets	<u>\$52,038</u>	<u>\$52,137</u>	<u>\$27,617</u>	<u>\$26,603</u>	<u>\$79,655</u>	<u>\$78,740</u>

By far the largest portion of the City's net assets (86.1 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Kelso's net assets (1.9 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$9,616 may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Kelso is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

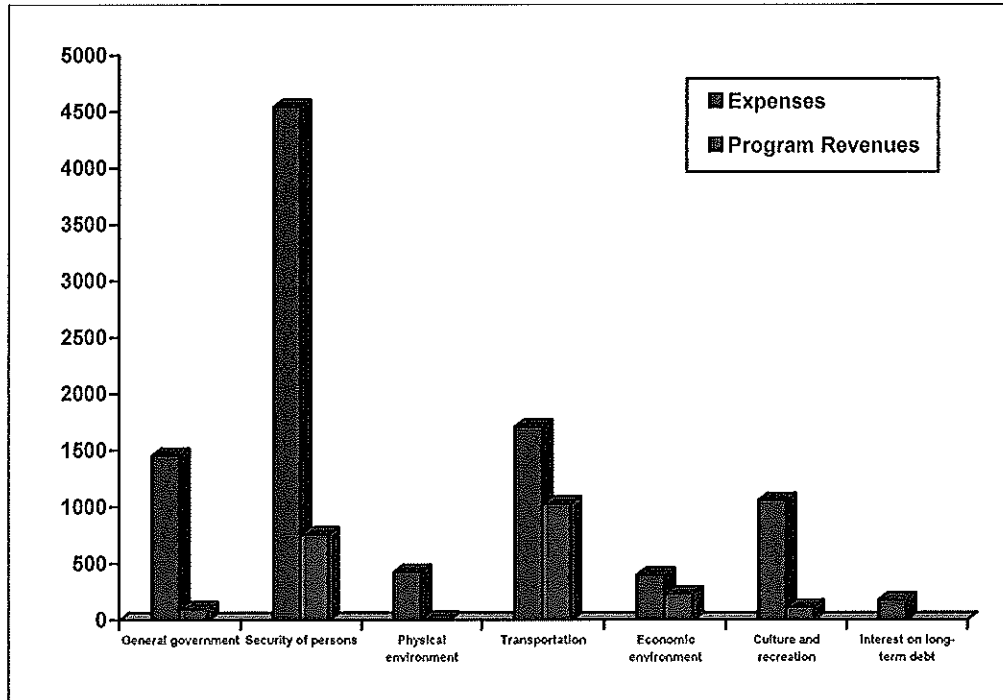
**Governmental activities.** Governmental activities decreased the City of Kelso's net assets by \$99 in 2011. However, the City's obligations to certain retirees increased by \$166 in 2011 which accounts for all of the decrease in net assets (see Notes V.E. and V.F.). In addition, through austerity measures implemented during 2011, the City achieved the following:

- Total expenses decreased by \$938 in 2011.
- Total revenues increased by \$76 in 2011.

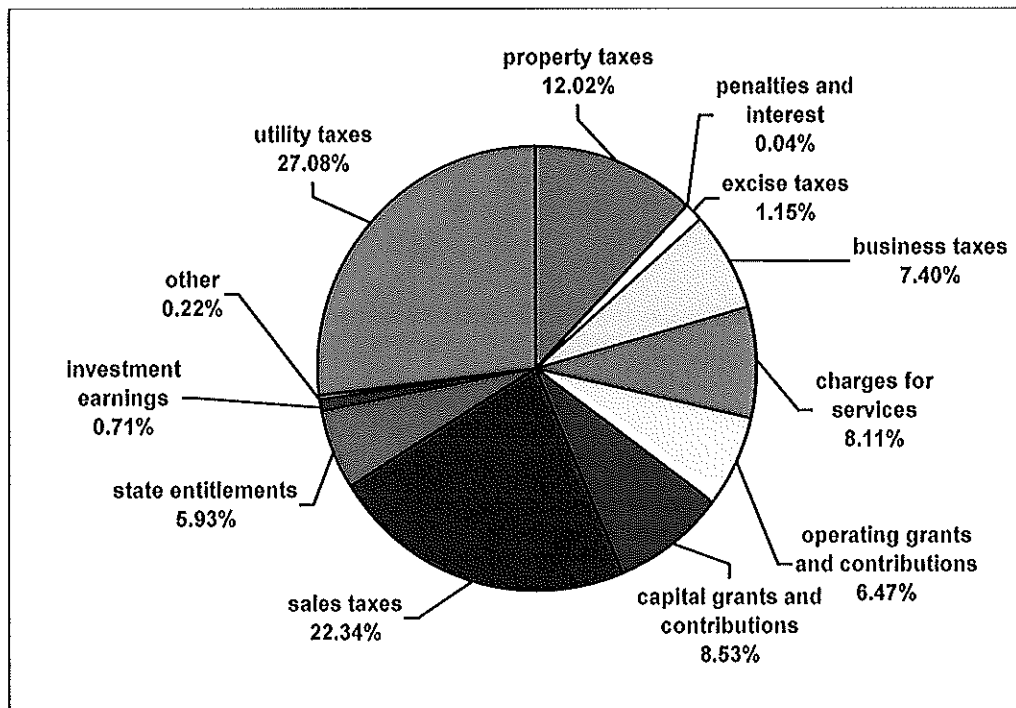
**City of Kelso's Changes in Net Assets**

	Governmental activities		Business-type activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	\$782	\$680	\$9,538	\$9,141	\$10,320	\$9,821
Operating grants and contributions	624	691	238	129	862	820
Capital grants and contributions	822	868	-	10	822	878
General revenues:						
Property taxes	1,159	1,139	-	-	1,159	1,139
Sales and use taxes	2,154	2,150	-	-	2,154	2,150
Utility taxes	2,611	2,542	-	-	2,611	2,542
Business taxes	713	671	-	-	713	671
Excise taxes	111	117	-	-	111	117
Penalties and interest	4	5	-	-	4	5
State entitlements	572	640	-	-	572	640
Investment earnings	68	50	15	15	83	65
Other	<u>21</u>	<u>12</u>	<u>-</u>	<u>20</u>	<u>21</u>	<u>32</u>
Total revenues	<u>9,641</u>	<u>9,565</u>	<u>9,791</u>	<u>9,315</u>	<u>19,432</u>	<u>18,880</u>
Expenses:						
General government	1,453	1,501	-	-	1,453	1,501
Security of persons and property	4,543	5,031	-	-	4,543	5,031
Physical environment	422	441	-	-	422	441
Transportation	1,703	1,783	-	-	1,703	1,783
Economic environment	396	695	-	-	396	695
Culture and recreation	1,054	1,091	-	-	1,054	1,091
Interest on long-term debt	173	140	-	-	173	140
Water/Sewer	-	-	6,578	6,634	6,578	6,634
Storm water	-	-	580	456	580	456
Solid waste	-	-	1,235	1,247	1,235	1,247
Airport	<u>-</u>	<u>-</u>	<u>380</u>	<u>357</u>	<u>380</u>	<u>357</u>
Total expenses	<u>9,744</u>	<u>10,682</u>	<u>8,773</u>	<u>8,694</u>	<u>18,517</u>	<u>19,376</u>
Change in net assets before transfers	(103)	(1,117)	1,018	621	915	(496)
Transfers	<u>4</u>	<u>(20)</u>	<u>(4)</u>	<u>20</u>	<u>-</u>	<u>-</u>
Change in net assets	(99)	(1,137)	1,014	641	915	(496)
Net assets – beginning	<u>52,137</u>	<u>53,274</u>	<u>26,603</u>	<u>25,962</u>	<u>78,740</u>	<u>79,236</u>
Net assets – ending	<u>\$52,038</u>	<u>\$52,137</u>	<u>\$27,617</u>	<u>\$26,603</u>	<u>\$79,655</u>	<u>\$78,740</u>

## Expenses and Program Revenues – Governmental Activities

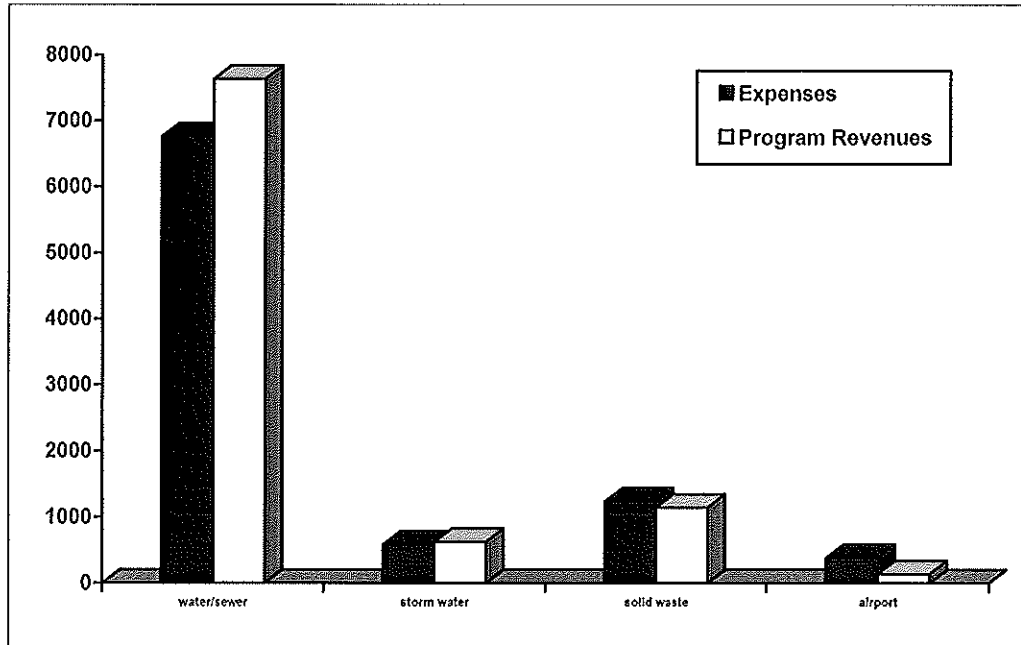


## Revenues by Source - Governmental Activities

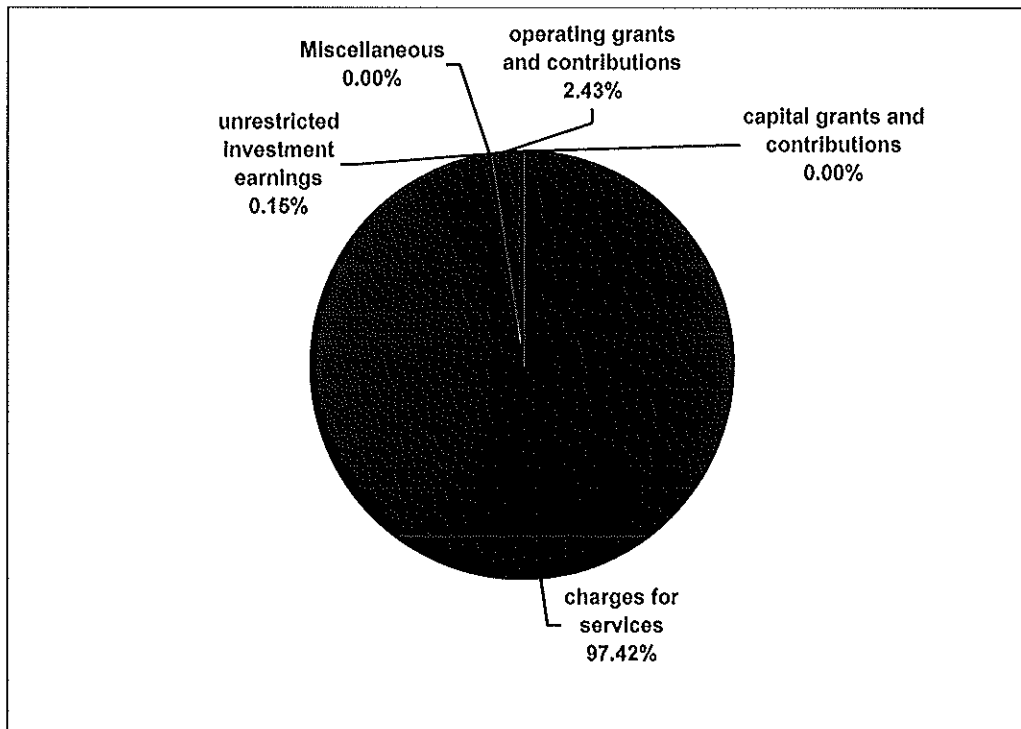


**Business-type activities.** Business-type activities increased the City of Kelso's net assets by \$1,014. Business-type activity revenues increased by \$476 in 2011 and expenses were down by \$79. Operating revenues exceeded operating expenses in 2011 by \$1,255 in the water/sewer fund.

#### Expenses and Program Revenues – Business-type Activities



#### Revenues by Source – Business-type Activities



Key elements for the change in net assets are as follows:

- The City increased the water and sewer rates by 7.5% and 3.0%, respectively, in 2011.
- The City increased the garbage collection rates by 2.5% in 2011.
- Payments made to the regional sewage treatment plant decreased by \$341 in 2011. See Note V.D.

### **Financial Analysis of the Government's Funds**

As noted earlier, the City of Kelso uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds.** The focus of the City of Kelso's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Kelso's financing requirements. In particular, unrestricted fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Kelso's governmental funds reported combined ending fund balances of \$4,268, a decrease of \$120 in comparison with the prior year. Approximately 45% of this total amount (\$1,911) constitutes unrestricted fund balance (unassigned, assigned, and committed), which is available for spending at the City's discretion. The remainder of fund balance is restricted or nonspendable to indicate that it is not available for new spending because it is restricted 1) to pay for tourism promotion and for the acquisition and/or operation of tourism-related facilities (\$123), 2) to pay for low income housing (\$54), 3) to pay for housing rehabilitation (\$556), 4) for a variety of other restricted purposes (\$152), or it is nonspendable 1) for interfund loans that are not payable/receivable in the current period (\$696), or 2) for long-term notes receivable that will not become available in the current period (\$777).

As mentioned earlier, the City of Kelso maintains ten individual governmental funds. Three of these funds are classified as major funds for the purposes of this report, based on criteria set forth by the GASB. Those funds are the General Fund, Arterial Street Fund and the G.O. Bond Fund.

The general fund is the chief operating fund of the City of Kelso. At the end of the current fiscal year, total fund balance of the general fund was \$1,686. All but \$489 of this fund balance is unassigned. \$55 represents nonspendable amounts for interfund loans that will not be received in the current period. \$54 is restricted for low income housing and \$178 has been committed by the City for maintenance of City owned bridges. Unrestricted fund balance represents 21 percent of total general fund operating expenditures (excludes capital expenditures and transfers).

The fund balance of the City of Kelso's general fund increased by \$197 during the current fiscal year. This increase in fund balance can be attributed to the elimination of 9

full-time positions going into 2011. The nine positions were eliminated through attrition. 2011 revenues (including transfers) increased by \$51, and, the decrease in expenditures (including transfers) was \$600.

The arterial street fund accounts for the receipt and expenditure of a portion of the State-levied motor vehicle fuel taxes distributed to the City as well as various grants. Revenues are designated for construction, improvement, chip sealing, seal coating, and repair of streets or for payment of related municipal indebtedness. In 2011, the arterial street fund expended in excess of \$1.2 million on roadway improvements.

The G.O. bond fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of the City's governmental funds. In December, 2011 the City issued general obligation refunding bonds in the amount of \$2,710 to refund the 2003 general obligation bonds.

**Proprietary funds.** The City of Kelso's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the water/sewer fund at the end of the year amounted to \$4,378, and for the solid waste fund amounted to \$532. The total net assets for the water/sewer fund increased by \$1,063 and the total net assets for the solid waste fund decreased by \$78. Residential and commercial water rates were increased by 7.5% and sewer rates were increased by 3.0% in 2011. Factors concerning the finances of these two funds have already been addressed in the discussion of the City of Kelso's business-type activities.

### **General Fund Budgetary Highlights**

Differences between the original budget and the final amended budget (\$217 increase in appropriations) can be briefly summarized as follows:

- \$50 for increases in municipal court administration.
- \$119 for police operations.
- \$21 for miscellaneous law enforcement grants.
- \$25 for miscellaneous library operations.
- \$2 for miscellaneous operations.

\$146 of this increase was funded by general fund reserves, \$50 by increased revenues and \$21 was funded by grants. At the end of the year, operating revenues exceeded budgetary estimates by \$35. Operating expenditures and transfers were \$395 less than budgetary estimates.

## Capital Asset and Debt Administration

**Capital Assets.** The City of Kelso's investment in capital assets for its governmental and business type activities as of December 31, 2011 amounts to \$68,562 (net of related debt and accumulated depreciation). This investment in capital assets includes land, buildings and structures, improvements, machinery and equipment, park facilities, and infrastructure (roads, highways, and bridges constructed after December 31, 1979).

Major capital asset events during the current fiscal year included the following:

- In 2011, the City of Kelso continued the planning/preliminary engineering phase of the West Main Street Realignment project in West Kelso. The West Main Street Realignment project runs from the Allen Street Bridge on the west end of Allen Street, to the west city limits of Kelso at West Cowlitz Way. The Realignment Project stems from growing traffic, congestion and accidents along the corridor. The goal of the project is to redevelop the streets in the area to deal with those issues, and at the same time provide a desirable business friendly environment. During the planning phase the city anticipates deciding on a final alignment option, developing the supporting environmental documents and developing engineering plans, estimates and specifications for construction. The planning phase is being funded entirely by a federal grant. The total cost of this project through December 31, 2011 was \$1,266.
- The Paxton Road Water Reservoir project was started in 2011. This project consists of the construction of a 2 million gallon water reservoir with accumulated costs of \$3,178 through December 31, 2011.
- Various waterline replacement projects were substantially completed in 2011. These projects consisted of the installation of 1.488 miles of new water mains throughout the City. The total cost of these projects through December 2011 was \$1,238

### City of Kelso's Capital Assets (net of depreciation)

	Governmental activities		Business-type activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$18,133	\$18,133	\$484	\$484	\$18,617	\$18,617
Buildings and structures	7,863	8,152	5,424	5,580	13,287	13,732
Improvements other than buildings	1,997	2,215	15,109	15,370	17,106	17,585
Machinery and equipment	353	393	697	880	1,050	1,273
Infrastructure	19,946	20,687	-	-	19,946	20,687
Construction in progress	2,398	1,474	6,062	1,458	8,460	2,932
Total	<u>\$50,690</u>	<u>\$51,054</u>	<u>\$27,776</u>	<u>\$23,772</u>	<u>\$78,466</u>	<u>\$74,826</u>

Additional information on the City of Kelso's capital assets can be found in note IV.C.

**Long-term debt.** At the end of the current fiscal year, the City of Kelso had total bonded debt outstanding of \$2,710. 100% of this amount is backed by the full faith and credit of

the City. The remainder of the City of Kelso's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

**City of Kelso's Outstanding Debt**  
General Obligation and Revenue Bonds

	Governmental activities		Business-type activities		Total	
	2011	2010	2011	2010	2011	2010
General obligation bonds	\$2,710	\$2,770	\$-	\$-	\$2,710	\$2,770
Revenue bonds	-	-	5,050	5,235	5,050	5,235
Total	<u>\$2,710</u>	<u>\$2,770</u>	<u>\$5,050</u>	<u>\$5,235</u>	<u>\$7,760</u>	<u>\$8,005</u>

The City of Kelso's total bonded debt decreased by \$245 during the current fiscal year. In December of 2011 the City issued \$2,710 of general obligation refunding bonds to refund previously issued general obligation bonds. (See note IV.E)

In addition to the bonded debt mentioned above, the City has two Public Works Trust Fund loans, two Drinking Water State Revolving Fund loans, and one miscellaneous note outstanding at year end. The total amount outstanding at year end for these loans is \$2,144.

Additional information on the City of Kelso's long-term debt can be found in note IV.E.

The City of Kelso is authorized to issue debt pursuant to the Acts of the State of Washington. With voter approval the City can issue debt up to 2.5 percent of the assessed valuation of taxable property within the City. Without a vote, the City can incur debt up to an amount equal to 1.5 percent of the assessed valuation. Further, voted indebtedness is permitted for water, artificial lights, and sewerage up to 2.5 percent of assessed valuation, with an additional 2.5 percent available for acquiring open space for park facilities. The combination of unlimited tax (voted) and limited tax (non-voted) general obligation debt for all purposes cannot exceed 7.5 percent of assessed valuation.

### **Economic Factors and Next Year's Budgets and Rates**

- The annual average unemployment rate for the Kelso/Longview metropolitan area in 2011 was 12.1 percent, which is a decrease from a rate of 12.8 percent in 2010. This compares unfavorably to the State's average unemployment rate of 9.2 percent and the national average rate of 8.9 percent.
- In late 2008, the City began to experience a severe downturn in economic activity. This downturn, which has continued through 2011, has manifested itself with decreased sales, business, and gambling tax revenues, as well as, decreased building permit revenues. In addition, the rate of return on the City's investments has fallen to .13% at December 31, 2011 from as high as 4.6% just four years ago.
- The City's ability to raise property taxes has been further limited by I-747. I-747 is a voter approved initiative that reduces the allowable property tax growth limit to lower of 1 percent or the Implicit Price Deflator.

All of these factors were considered in preparing the City of Kelso's budget for the 2012 fiscal year.

At the end of the current fiscal year the unassigned fund balance in the general fund is \$1,196. In 2012, the City anticipates spending down \$18 of this unassigned fund balance. In addition, the City eliminated 2 positions (through lay-off) to help balance the 2012 budget.

In 2012, water and sewer rates will be increased by 7.5% and 3.0%, respectively. These rate increases are necessary to keep pace with inflation, for future capital upgrades, and the increased cost of sewage treatment.

### **Requests for Information**

This financial report is designed to provide a general overview of the City of Kelso's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, P.O. Box 819, Kelso, Washington 98626.

# **BASIC FINANCIAL STATEMENTS**

**City of Kelso**  
**Statement of Net Assets**  
**December 31, 2011**

	<b>PRIMARY GOVERNMENT</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash & cash equivalents	\$ 4,030,965	\$ 6,170,072	\$ 10,201,037
Receivables (net of allowance for uncollectibles):	1,147,177	843,234	1,990,411
Prepays	-	5,975	5,975
Inventory	-	161,236	161,236
Deferred charges	103,846	83,657	187,503
Long-term notes receivable	777,067	-	777,067
Restricted assets	-	1,273,075	1,273,075
Capital assets net of accumulated depreciation:			
Land	18,133,171	484,292	18,617,463
Buildings	7,863,313	5,424,075	13,287,388
Improvements other than buildings	1,997,176	15,109,486	17,106,662
Machinery and equipment	352,480	696,490	1,048,970
Infrastructure	19,945,645	-	19,945,645
Construction in progress	2,398,152	6,061,821	8,459,973
Total assets	<u>56,748,992</u>	<u>36,313,413</u>	<u>93,062,405</u>
<b>LIABILITIES</b>			
Accounts payable and other current liabilities	436,046	909,695	1,345,741
Interest payable	10,186	24,622	34,808
Unearned revenue	34,435	450,000	484,435
Liabilities payable from restricted assets	-	231,099	231,099
Long-term liabilities:			
Due within one year	230,421	416,062	646,483
Due in more than one year	3,999,918	6,664,900	10,664,818
Total liabilities	<u>4,711,006</u>	<u>8,696,378</u>	<u>13,407,384</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	47,752,737	20,809,424	68,562,161
Restricted for:			
Debt service	-	591,976	591,976
Capital projects	35,974	-	35,974
Promotion of tourism	123,047	-	123,047
Paths and trails	35,977	-	35,977
Parks	14,783	-	14,783
Criminal Justice	65,153	-	65,153
Affordable housing	53,979	-	53,979
Housing rehabilitation	555,644	-	555,644
Unrestricted	3,400,692	6,215,635	9,616,327
Total net assets	<u>\$ 52,037,986</u>	<u>\$ 27,617,035</u>	<u>\$ 79,655,021</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF KELSO**  
**Statement of Activities**  
**For the Year Ended December 31, 2011**

Functions/Programs	Program Revenues			Net (expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions	Primary Government	
					Governmental Activities	Business-type Activities
<b>Primary government:</b>						
Governmental activities:						
General government	\$ 1,453,243	\$ 97,489	\$ 100	\$ -	\$ (1,355,654)	\$ -
Security of persons and property	4,543,203	232,727	523,983	-	(3,786,493)	-
Physical environment	422,248	11,481	-	-	(410,767)	-
Transportation	1,702,441	209,554	-	814,491	(678,396)	-
Economic environment	396,090	126,882	99,629	-	(169,579)	-
Culture and recreation	1,053,977	103,517	-	7,936	(942,524)	-
Interest on long-term debt	172,663	-	-	-	(172,663)	-
Total governmental activities	<u>9,743,865</u>	<u>781,850</u>	<u>623,712</u>	<u>822,427</u>	<u>(7,516,076)</u>	<u>-</u>
Business-type activities:						
Water/Sewer	6,578,353	7,634,829	-	-	-	1,056,476
Solid waste	1,234,449	1,141,825	18,217	-	-	(74,407)
Storm water	580,153	622,938	101,197	-	-	143,982
Airport	379,691	137,626	118,839	-	-	(123,226)
Total business-type activities	<u>8,772,646</u>	<u>9,537,218</u>	<u>238,253</u>	<u>-</u>	<u>-</u>	<u>1,002,825</u>
Total primary government	<u>\$ 18,516,511</u>	<u>\$ 10,318,868</u>	<u>\$ 861,965</u>	<u>\$ 822,427</u>	<u>\$ (7,516,076)</u>	<u>\$ (6,513,251)</u>
General Revenues:						
Property taxes					1,158,902	1,158,902
Sales taxes					2,154,162	2,154,162
Utility taxes					2,610,606	2,610,606
Business taxes					712,796	712,796
Excise taxes					111,017	111,017
Penalties & interest					4,564	4,564
State entitlements (unrestricted)					572,462	572,462
Investment earnings					67,771	82,754
Miscellaneous					10,812	10,812
Gain/(loss) on sale of capital assets					9,791	9,791
Transfers					4,182	-
Total general revenues and transfers					7,417,065	7,427,866
Change in net assets					(99,011)	914,615
Net assets - beginning					52,136,997	78,740,406
Net assets - ending					<u>\$ 52,037,986</u>	<u>\$ 79,655,021</u>

The notes to the financial statements are an integral part of this statement.

**City of Kelso**  
**Balance Sheet**  
**Governmental Funds**  
**December 31, 2011**

	General Fund	Arterial Street Fund	Non-Voted G.O. Bond Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash & cash equivalents	\$ 1,600,619	\$ 5,527	\$ 817,351	\$ 1,040,939	\$ 3,464,436
Receivables (net):					
Taxes	123,165	-	-	-	123,165
Accounts	277,918	-	-	425	278,343
Assessments	-	34,435	-	-	34,435
Due from other funds	180,000	-	118,374	-	298,374
Due from other governments	32,497	523,707	-	155,030	711,234
Advances to other funds	55,000	-	640,943	-	695,943
Long-term notes receivable	-	-	-	777,067	777,067
Total assets	<u>\$ 2,269,199</u>	<u>\$ 563,669</u>	<u>\$ 1,576,668</u>	<u>\$ 1,973,461</u>	<u>\$ 6,382,997</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable	283,894	123,201	302	13,558	420,955
Due to other funds	-	243,374	-	55,000	298,374
Due to other governments	15,091	-	-	-	15,091
Advances from other funds	-	640,943	-	55,000	695,943
Deferred revenue	284,496	300,265	-	99,629	684,390
Total liabilities	<u>583,481</u>	<u>1,307,783</u>	<u>302</u>	<u>223,187</u>	<u>2,114,753</u>
<b>Fund Balances:</b>					
<b>Nonspendable:</b>					
Long-term notes	-	-	-	777,067	777,067
Advances	55,000	-	640,943	-	695,943
<b>Restricted for:</b>					
Paths and trails	-	-	-	35,977	35,977
Promotion of tourism	-	-	-	123,047	123,047
Housing/neighborhood rehabilitation	-	-	-	555,644	555,644
Low income housing	53,979	-	-	-	53,979
Criminal justice	-	-	-	65,153	65,153
Parks	-	-	-	14,783	14,783
Capital projects	-	-	-	35,974	35,974
<b>Committed to:</b>					
Bridge maintenance	178,084	-	-	-	178,084
<b>Assigned to:</b>					
Debt service	-	-	935,423	-	935,423
Other purposes	202,283	-	-	142,629	344,912
Unassigned	1,196,372	(744,114)	-	-	452,258
Total fund balances	<u>1,685,718</u>	<u>(744,114)</u>	<u>1,576,366</u>	<u>1,750,274</u>	<u>4,268,244</u>
Total liabilities and fund balances	<u>\$ 2,269,199</u>	<u>\$ 563,669</u>	<u>\$ 1,576,668</u>	<u>\$ 1,973,461</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	50,551,399
Other assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	649,955
Net Pension and Net OPEB Assets or Obligations are not considered to represent a financial resource or liability and, therefore, are not reported in the funds.	(962,307)
Internal service funds are used by management to charge the costs of fleet management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	705,067
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(3,174,372)
Net assets of governmental activities	<u>\$ 52,037,986</u>

**City of Kelso**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended December 31, 2011**

	General	Arterial Street Fund	Non-Voted G.O. Bond Fund	Other Governmental Funds	Total
<b>Revenues</b>					
Taxes	\$ 6,550,938	\$ -	\$ -	\$ 194,236	\$ 6,745,174
Licenses and permits	200,097	-	-	-	200,097
Intergovernmental	631,041	616,070	-	406,031	1,653,142
Charges for services	647,385	150,000	-	26,094	823,479
Fines	189,727	-	-	-	189,727
Investment earnings	28,006	231	38,144	2,678	69,059
Rental/lease income	61,400	-	-	-	61,400
Miscellaneous	20,766	2,586	-	12,593	35,945
Total revenues	<u>8,329,360</u>	<u>768,887</u>	<u>38,144</u>	<u>641,632</u>	<u>9,778,023</u>
<b>Expenditures</b>					
Current:					
General government	1,726,081	-	-	-	1,726,081
Security of persons and property	3,905,096	-	-	393,593	4,298,689
Physical environment	548,602	-	-	-	548,602
Transportation	494,834	-	-	-	494,834
Economic environment	286,585	-	-	111,661	398,246
Culture and recreation	608,984	-	-	164,861	773,845
Debt service:					
Principal	-	22,713	110,000	-	132,713
Interest and bond issuance costs	-	46,490	177,567	276	224,333
Capital outlay:					
General government	64,474	-	-	-	64,474
Security of persons and property	10,035	-	-	-	10,035
Transportation	58,387	1,203,928	-	-	1,262,315
Culture and recreation	18,084	-	-	-	18,084
Total expenditures	<u>7,721,162</u>	<u>1,273,131</u>	<u>287,567</u>	<u>670,391</u>	<u>9,952,251</u>
Excess (deficiency) of revenues over (under) expenditures	<u>608,198</u>	<u>(504,244)</u>	<u>(249,423)</u>	<u>(28,759)</u>	<u>(174,228)</u>
<b>Other financing sources (uses)</b>					
Transfers in	24,182	265,169	178,828	21,248	489,427
Transfers out	(434,908)	(337)	-	(50,000)	(485,245)
Refunding bonds issued	-	-	2,710,000	-	2,710,000
Payment to refunded bond escrow agent	-	-	(2,660,000)	-	(2,660,000)
Total other financing sources (uses)	<u>(410,726)</u>	<u>264,832</u>	<u>228,828</u>	<u>(28,752)</u>	<u>54,182</u>
Net change in fund balances	<u>197,472</u>	<u>(239,412)</u>	<u>(20,595)</u>	<u>(57,511)</u>	<u>(120,046)</u>
Fund balances - beginning	1,488,246	(504,702)	1,596,961	1,807,785	4,388,290
Fund balances - ending	<u>\$ 1,685,718</u>	<u>\$ (744,114)</u>	<u>\$ 1,576,366</u>	<u>\$ 1,750,274</u>	<u>\$ 4,268,244</u>

The notes to the financial statements are an integral part of this statement.

**City of Kelso**  
**Reconciliation of the Statement of Revenues,**  
**Expenditures, and Changes In Fund Balances of Governmental Funds**  
**To the Statement of Activities**  
**For the Year Ended December 31, 2011**

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds (page 31)	\$ (120,046)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	(277,293)
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The net effect of underfunding the City's annual required contribution to the Firemen's Pension Fund.	(7,783)
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The net effect of underfunding the City's annual required contribution for post-retirement health care benefits for LEOFF 1 (Law Enforcement Officers and Fire Fighters) employees.	(158,186)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	391,410
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The issuance of long-term debt (e.g. bonds, notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	186,559
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(73,693)
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Some expenses reported in the governmental funds have already been reported in the statement of activities in prior years.	4,284
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Internal service funds are used by management to charge the costs of fleet acquisition to individual funds.

The net revenue of certain activities of internal service funds is reported with governmental activities.	(44,263)
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Change in net assets of governmental activities (page 29)	\$ (99,011)
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The notes to the financial statements are an integral part of this statement.

**City of Kelso**  
**General Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**For the Year Ended December 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>With Final Budget</u>
<b>Revenues</b>				
Taxes	\$ 5,518,060	\$ 5,518,060	\$ 5,625,830	\$ 107,770
Licenses and permits	200,600	200,600	200,097	(503)
Intergovernmental	416,000	437,200	440,850	3,650
Charges for services	668,284	668,284	635,110	(33,174)
Fines	136,000	186,000	184,839	(1,161)
Investment earnings	9,200	9,200	27,442	18,242
Contributions	18,600	18,600	-	(18,600)
Other miscellaneous	57,000	57,000	7,860	(49,140)
Total revenues	<u>7,023,744</u>	<u>7,094,944</u>	<u>7,122,028</u>	<u>27,084</u>
<b>Expenditures</b>				
General government:				
Council	80,690	80,690	76,013	4,677
Municipal court	192,600	242,600	213,959	28,641
Manager	190,195	190,195	187,315	2,880
Finance	542,760	542,760	518,177	24,583
Attorney	136,835	136,835	115,160	21,675
Other - unclassified	676,548	676,548	615,457	61,091
Total general government	<u>1,819,628</u>	<u>1,869,628</u>	<u>1,726,081</u>	<u>143,547</u>
Security of persons and property:				
Police	3,176,296	3,316,077	3,263,409	52,668
Jail	326,000	326,000	305,038	20,962
Fire	240,000	240,000	240,000	-
Other	100,697	100,697	96,649	4,048
Total security of persons and property	<u>3,842,993</u>	<u>3,982,774</u>	<u>3,905,096</u>	<u>77,678</u>
Physical environment	<u>615,701</u>	<u>615,701</u>	<u>548,602</u>	<u>67,099</u>
Economic environment	<u>337,980</u>	<u>337,980</u>	<u>286,585</u>	<u>51,395</u>
Capital outlay	<u>56,000</u>	<u>56,000</u>	<u>74,509</u>	<u>(18,509)</u>
Total expenditures	<u>6,672,302</u>	<u>6,862,083</u>	<u>6,540,873</u>	<u>321,210</u>
Excess (deficiency) of revenues over (under) expenditures	<u>351,442</u>	<u>232,861</u>	<u>581,155</u>	<u>348,294</u>
<b>Other financing sources (uses)</b>				
Transfers in	65,000	65,000	24,182	(40,818)
Transfers out	(477,297)	(477,297)	(477,297)	-
Total other financing sources (uses)	<u>(412,297)</u>	<u>(412,297)</u>	<u>(453,115)</u>	<u>(40,818)</u>
Net change in fund balances budgetary basis	<u>(60,855)</u>	<u>(179,436)</u>	<u>128,040</u>	<u>307,476</u>
<b>Reconciliation of budgetary/GAAP basis:</b>				
Basis difference (See note III.B.)			69,432	
Net change in fund balances GAAP basis			197,472	
Fund balances - beginning			1,488,246	
Fund balances - ending			<u>\$ 1,685,718</u>	

The notes to the financial statements are an integral part of this statement.

**City of Kelso**  
**Arterial Street Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**For the Year Ended December 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>With Final</u>
				<u>Budget</u>
<b>Revenues</b>				
Intergovernmental	\$ 2,085,000	\$ 2,085,000	\$ 616,070	\$ (1,468,930)
Charges for services	152,000	152,000	150,000	(2,000)
Investment earnings	-	-	231	231
Miscellaneous	2,700	2,700	2,586	(114)
Total revenues	<u>2,239,700</u>	<u>2,239,700</u>	<u>768,887</u>	<u>(1,470,813)</u>
<b>Expenditures</b>				
Capital outlay	2,368,000	2,368,000	1,203,928	1,164,072
Debt Service:				
Principal	135,888	135,888	22,713	113,175
Interest	46,490	46,490	46,490	-
Total expenditures	<u>2,550,378</u>	<u>2,550,378</u>	<u>1,273,131</u>	<u>1,277,247</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(310,678)</u>	<u>(310,678)</u>	<u>(504,244)</u>	<u>(193,566)</u>
<b>Other financing sources (uses)</b>				
Transfers in	298,169	298,169	265,169	(33,000)
Transfers out	(350)	(350)	(337)	13
Total other financing sources (uses)	<u>297,819</u>	<u>297,819</u>	<u>264,832</u>	<u>(32,987)</u>
Net change in fund balances	<u>(12,859)</u>	<u>(12,859)</u>	<u>(239,412)</u>	<u>(226,553)</u>
Fund balances - beginning	<u>(504,702)</u>	<u>(504,702)</u>	<u>(504,702)</u>	<u>-</u>
Fund balances - ending	<u>\$ (517,561)</u>	<u>\$ (517,561)</u>	<u>\$ (744,114)</u>	<u>\$ (226,553)</u>

The notes to the financial statements are an integral part of this statement.

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**City of Kelso**  
**Statement of Net Assets**  
**Proprietary Funds**  
**December 31, 2011**

	Business-type Activities - Enterprise Funds					Equipment Reserve Internal Service Fund
	Major Funds		Non-major Funds		Total	
	Solid Waste	Water- Sewer	Storm Water	Airport		
ASSETS						
Current Assets:						
Cash & cash equivalents	\$ 552,126	\$ 4,740,334	\$ 396,807	\$ 84,839	\$ 5,774,106	\$ 962,495
Restricted cash, cash equivalents, and investments:						
Customer deposits	-	231,099	-	-	231,099	-
Grant for capital improvements	-	-	-	450,000	450,000	-
Accounts receivable	86,062	527,042	49,166	22,134	684,404	-
Due from other governments	7,672	-	100,369	50,789	158,830	-
Prepaid expense	-	-	-	5,975	5,975	-
Inventory	-	161,236	-	-	161,236	-
Total current assets	645,860	5,659,711	546,342	613,737	7,465,650	962,495
Noncurrent assets:						
Restricted cash, cash equivalents, and investments:						
Revenue bond covenant accounts	-	591,976	-	-	591,976	-
Deferred charges	-	83,657	-	-	83,657	-
Capital Assets:						
Land	-	28,712	-	455,580	484,292	-
Buildings and structures	-	6,826,316	-	531,821	7,358,137	-
Improvements other than buildings	-	23,766,067	624,166	2,781,023	27,161,256	-
Machinery and equipment	-	2,590,318	43,401	152,046	2,785,765	2,328,870
Construction in progress	-	5,964,086	44,890	52,845	6,061,821	-
Less accumulated depreciation	-	(14,782,331)	(251,600)	(1,279,274)	(16,313,205)	(1,952,233)
Total capital assets (net of accumulated depreciation)	-	24,383,168	460,857	2,694,041	27,538,066	376,637
Total noncurrent assets	-	25,058,801	460,857	2,694,041	28,213,699	376,637
Total Assets	645,860	30,718,512	1,007,199	3,307,778	35,679,349	1,339,132

The notes to the financial statements are an integral part of this statement.

	Business-type Activities - Enterprise Funds					
	Major Funds		Non-major Funds			Internal Service Funds
	Solid Waste	Water-Sewer	Storm Water	Airport	Total	
<b>LIABILITIES</b>						
Current Liabilities:						
Accounts payable	114,101	682,988	34,490	78,116	909,695	-
Compensated absences	-	23,799	4,204	552	28,555	-
Customer deposits	-	231,099	-	-	231,099	-
Accrued interest payable	-	24,622	-	-	24,622	-
Deferred revenue	-	-	-	450,000	450,000	-
Current revenue bonds payable	-	185,000	-	-	185,000	-
Current portion notes payable	-	187,506	-	15,000	202,506	-
Total current liabilities	114,101	1,335,014	38,694	543,668	2,031,477	-
Noncurrent liabilities:						
Compensated absences	-	71,398	12,612	1,657	85,667	-
Revenue bonds payable	-	4,865,000	-	-	4,865,000	-
Notes payable	-	1,659,234	-	55,000	1,714,234	-
Total noncurrent liabilities	-	6,595,632	12,612	56,657	6,664,901	-
Total Liabilities	114,101	7,930,646	51,306	600,325	8,696,378	-
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	-	17,817,813	460,858	2,624,041	20,902,712	376,637
Restricted for debt service	-	591,976	-	-	591,976	-
Unrestricted	531,759	4,378,077	495,035	83,412	5,488,283	962,495
Total net assets	\$ 531,759	\$ 22,787,866	\$ 955,893	\$ 2,707,453	\$ 26,982,971	\$ 1,339,132
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds:					634,064	
Net assets of business-type activities					\$ 27,617,035	

**City of Kelso**  
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended December, 31 2011**

	Business-type Activities - Enterprise Funds					Equipment Reserve Internal Service Fund
	Major Funds		Non-major Funds			
	Solid Waste	Water- Sewer	Storm Water	Airport	Total	
Operating revenues:						
Charges for services	\$ 1,135,856	\$ 7,449,546	\$ 622,938	\$ 131,497	\$ 9,339,837	\$ 155,139
Other operating revenue	5,969	107,038	-	6,129	119,136	-
Total operating revenues	1,141,825	7,556,584	622,938	137,626	9,458,973	155,139
Operating expenses:						
General operations	749,333	2,299,721	510,035	195,778	3,754,867	-
Contracted processing operations	326,295	2,359,168	-	-	2,685,463	-
Maintenance	4,752	179,796	39,922	36,573	261,043	-
Depreciation	-	637,287	20,806	128,744	786,837	218,556
Taxes	154,069	825,639	9,390	18,429	1,007,527	-
Total operating expenses	1,234,449	6,301,611	580,153	379,524	8,495,737	218,556
Operating income (loss)	(92,624)	1,254,973	42,785	(241,898)	963,236	(63,417)
Nonoperating revenues (expenses):						
Investment earnings	1,012	12,621	482	347	14,462	1,355
Intergovernmental	18,217	-	101,197	118,839	238,253	-
Other	-	45,199	-	-	45,199	-
Gain (loss) on capital asset disposition	-	-	-	-	-	9,791
Interest expense	-	(235,167)	-	(167)	(235,334)	-
Total nonoperating revenues (expenses)	19,229	(177,347)	101,679	119,019	62,580	11,146
Income (loss) before contributions and transfers	(73,395)	1,077,626	144,464	(122,879)	1,025,816	(52,271)
Transfers in	-	-	-	20,000	20,000	-
Transfers out	(4,837)	(14,509)	(4,836)	-	(24,182)	-
Change in net assets	(78,232)	1,063,117	139,628	(102,879)	1,021,634	(52,271)
Total net assets - beginning	609,991	21,724,749	816,265	2,810,332		1,391,403
Total net assets - ending	\$ 531,759	\$ 22,787,866	\$ 955,893	\$ 2,707,453		\$ 1,339,132
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds:					(8,008)	
Change in net assets of business-type activities					\$ 1,013,626	

The notes to the financial statements are an integral part of this statement.

**City of Kelso**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the year ended December 31, 2011**

	Business-type Activities - Enterprise Funds					Equipment Reserve Internal Service Fund
	Major Funds		Non-major Funds		Totals	
	Solid Waste	Water- Sewer	Storm Water	Airport		
Cash flows from operating activities						
Receipts from customers and users	\$ 1,138,583	\$ 7,479,391	\$ 550,080	\$ 125,781	\$ 9,293,835	\$ -
Receipts from other sources	5,969	73,568	-	6,129	85,666	-
Receipts from interfund services provided	-	107,038	73,344	-	180,382	155,139
Payments to suppliers	(1,155,810)	(4,346,585)	(228,775)	(153,412)	(5,884,582)	-
Payments to employees	(13,650)	(1,096,116)	(265,054)	(44,278)	(1,419,098)	-
Payments for interfund services used	(64,636)	(419,995)	(60,257)	(37,963)	(582,851)	-
Net cash provided (used) by operating activities	(89,544)	1,797,301	69,338	(103,743)	1,673,352	155,139
Cash flows from noncapital financing activities						
Subsidies from local governments	-	-	-	60,000	60,000	-
Operating grants received	11,323	-	50,000	8,637	69,960	-
Transfer from (to) other funds	(4,837)	(14,509)	(4,836)	20,000	(4,182)	-
Net cash provided (used) by noncapital financing activities	6,486	(14,509)	45,164	88,637	125,778	-
Cash flows from capital and related financing activities						
Proceeds from capital recovery fees	-	45,199	-	-	45,199	-
Capital grants received	-	-	-	300,000	300,000	-
Proceeds from sale of capital assets	-	-	-	-	-	9,791
Acquisition and construction of capital assets	-	(4,407,116)	(44,479)	(4,512)	(4,456,107)	(16,626)
Principal paid on capital debt	-	(372,506)	-	(15,000)	(387,506)	-
Interest paid on capital debt	-	(217,360)	-	(167)	(217,527)	-
Net cash provided (used) by capital financing activities	-	(4,951,783)	(44,479)	280,321	(4,715,941)	(6,835)
Cash flows from investing activities						
Interest received	1,012	12,621	482	347	14,462	1,355
Net cash provided (used) by investing activities	1,012	12,621	482	347	14,462	1,355
Net increase (decrease) in cash and cash equivalents	(82,046)	(3,156,370)	70,505	265,562	(2,902,349)	149,659
Cash and cash equivalents, January 1	634,172	8,719,779	326,302	269,277	9,949,530	812,836
Cash and cash equivalents, December 31	\$ 552,126	\$ 5,563,409	\$ 396,807	\$ 534,839	\$ 7,047,181	\$ 962,495
Reconciliation of operating income to net cash provided by operating activities:						
Operating income (loss)	\$ (92,624)	\$ 1,254,973	\$ 42,785	\$ (241,898)	\$ 963,236	\$ (63,417)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation expense	-	637,287	20,806	128,744	786,837	218,556
(Increase) decrease in accounts receivable	2,727	22,077	486	(6,229)	19,061	-
(Increase) decrease in prepaid expense	-	-	-	(25)	(25)	-
(Increase) decrease in inventory	-	12,443	-	-	12,443	-
Increase (decrease) in customer deposits	-	81,336	-	-	81,336	-
Increase (decrease) in accounts payable	353	(221,415)	3,731	12,943	(204,388)	-
Increase (decrease) in compensated absences	-	10,600	1,530	2,209	14,339	-
Increase (decrease) in intergovernmental payables	-	-	-	513	513	-
Total adjustments	3,080	542,328	26,553	138,155	710,116	218,556
Net cash provided (used) by operating activities	\$ (89,544)	\$ 1,797,301	\$ 69,338	\$ (103,743)	\$ 1,673,352	\$ 155,139

The notes to the financial statements are an integral part of this statement.

**City of Kelso**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**December 31, 2011**

	<b>Firemen's Pension Fund</b>
	<hr/>
<b>Assets</b>	
Cash & cash equivalents	\$ 288,220
Total assets	<hr/> 288,220 <hr/>
<b>Liabilities</b>	
Accounts payable	<hr/> 1,826
Total liabilities	<hr/> 1,826 <hr/>
<b>Net Assets</b>	
Held in trust for pension benefits and other purposes	 <hr/> <hr/> \$ 286,394 <hr/>

The notes to the financial statements are an integral part of this statement.

**City of Kelso**  
**Statement of Changes in Fiduciary Net Assets**  
**Fiduciary Funds**  
**For the year ended December 31, 2011**

	<b>Firemen's Pension Fund</b>
<b>Additions</b>	
Contributions:	
Employer	\$ 227,352
Total contributions	<u>227,352</u>
Investment earnings:	
Interest	<u>424</u>
Total investment earnings	<u>424</u>
Total additions	<u>227,776</u>
<b>Deductions</b>	
Pension benefits	54,168
Healthcare benefits	141,279
Administrative expenses	<u>1,275</u>
Total deductions	<u>196,722</u>
Change in net assets	<u>31,054</u>
Net assets - beginning	255,340
Net assets - ending	<u><u>\$ 286,394</u></u>

The notes to the financial statements are an integral part of this statement.

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CITY OF KELSO  
Notes to the Financial Statements  
December 31, 2011

**I. Summary of significant accounting policies**

The financial statements of the City of Kelso have been prepared in conformity with generally accepted accounting principals (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principals. The significant accounting policies are described below.

**A. Reporting Entity**

The City of Kelso was incorporated in January 1889 and operates under the laws of the State of Washington applicable to a Charter Code City with a Council-Manager form of government.

**B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Certain indirect costs for centralized services are included in program expenses reported for individual functions and activities. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

CITY OF KELSO  
Notes to the Financial Statements  
December 31, 2011

Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues generally are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Grants associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The *general fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *arterial street fund* accounts for the receipt and expenditure of a portion of the State-levied motor vehicle fuel taxes distributed to the City as well as various grants. Revenues are designated for construction, improvement, chip sealing, seal coating, and repair of arterial streets or for payment of related municipal indebtedness.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The City reports the following major proprietary funds:

The *water and sewer fund* accounts for operations of providing water and sewer services.

The *solid waste fund* accounts for operations of providing garbage collection services.

Additionally, the City reports the following fund types:

CITY OF KELSO  
Notes to the Financial Statements  
December 31, 2011

*Internal service funds* account for fleet management and acquisition services provided to other departments of the City, or to other governments, on a cost reimbursement basis.

The *pension trust fund* accounts for the activities of the Firemen's Pension Fund, which accumulates resources for pension and healthcare benefit payments to qualified retired firemen and qualified spouses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water/sewer enterprise fund, of the solid waste enterprise fund, of the airport enterprise fund, of the storm drain enterprise fund and of the City's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

#### **D. Assets, liabilities, and net assets or equity**

##### ***1. Deposits and investments***

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

CITY OF KELSO  
Notes to the Financial Statements  
December 31, 2011

State statutes authorize the City to invest in obligations of the U. S. Treasury, obligations of the State of Washington, general obligations of Washington State municipalities, bankers' acceptances, certificates of deposit with Washington State banks, and the State Treasurer's Investment Pool.

Investments of pension trust funds are not subject to the preceding limitations.

Investments for the City are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

## ***2. Receivables and payables***

Customer accounts receivable consist of amounts owed by private individuals or organizations for goods and services provided, as well as, court ordered fines. Taxes receivable consist of property taxes and related interest and penalties (See Note V. section B). Special assessments consist of assessments which are recorded when levied and are liens against the property benefited. There is \$33 in delinquent special assessments as of December 31, 2011.

Because property taxes, special assessments, and utility billings are considered liens on property, no estimated uncollectible amounts are established. Receivables from court ordered fines are shown net of allowance for uncollectibles. All other receivables are considered immaterial and the direct write off method is used.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance restriction in the applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

## ***3. Inventories***

Inventories in governmental funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. Ending inventories of materials and supplies are not recorded in governmental funds as they are immaterial.

CITY OF KELSO  
Notes to the Financial Statements  
December 31, 2011

Inventories in proprietary funds are valued by the weighted average method which approximates the market value. A physical count is taken once a year.

**4. *Restricted assets***

Certain proceeds of the City's water/sewer fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The "revenue bond current debt service" account is used to segregate resources accumulated for debt service payments over the next twelve months. The "revenue bond reserve" account is used to report resources set aside to make up potential future deficiencies in the revenue bond current debt service account.

**5. *Capital assets***

Capital assets – which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) – are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant, equipment and infrastructure of the City are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	10 - 50
Improvements	10 - 50
Public domain infrastructure	10 - 50
System infrastructure	10 - 50
Vehicles	5 - 10
Office equipment	3 - 10
Computer equipment	3 - 10

**6. *Compensated absences***

It is the City's policy to permit employees to accumulate earned but unused vacation, comp-time, and sick pay benefits. All vacation pay, comp-time pay, and eligible sick pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds

CITY OF KELSO  
Notes to the Financial Statements  
December 31, 2011

only if they have matured, for example, as a result of employee resignations and retirements.

***7. Long-term obligations***

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

***8. Net assets/Fund balance***

The difference between fund assets and liabilities is “net assets” on the government-wide, proprietary, and fiduciary fund statements, and is “fund balance” on the governmental fund statements.

***9. Fund balance components***

The fund balance amounts for governmental funds have been reclassified in accordance with GASB Statement No. 54. As a result, amounts previously reported as reserved and unreserved are now reported as nonspendable, restricted, committed, assigned, or unassigned.

- Nonspendable fund balance includes items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless the proceeds are restricted, committed or assigned) and activity that is legally or contractually required to remain intact, such as a principal balance in a permanent fund.
- Restricted fund balance have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

CITY OF KELSO  
Notes to the Financial Statements  
December 31, 2011

- Committed fund balance can be used only for specific purposes pursuant to constraints imposed by a formal action of the City Council, the City's highest level of decision-making authority.
- Assigned fund balance includes amounts that are constrained by the City's intent to be used for a specific purpose, but are neither restricted nor committed. For governmental funds, other than the General Fund, this is the residual amount within the fund that is not restricted or committed.
- Unassigned fund balance is the residual amount of the General Fund not included in the four categories described above. Also, any deficit fund balances within the other governmental fund types are reported as unassigned.

Each fund has been analyzed to classify the fund balance in accordance with GASB Statement No. 54.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, followed in order by committed, assigned, and unassigned resources as they are needed.

The City does not have a formal minimum fund balance policy.

#### ***10. Data reclassifications***

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

## **II. Reconciliation of government-wide and fund financial statements**

### **A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets.**

The governmental funds balance sheet includes a reconciliation between *fund balance-total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this \$3,174,372 difference are as follows:

Bonds payable	\$(2,710,000)
Less: Deferred charges/loss on issuance (to be amortized over life of debt)	103,846
Notes payable	(227,200)
Accrued interest payable	(10,186)

CITY OF KELSO  
Notes to the Financial Statements  
December 31, 2011

Compensated absences	(330,832)
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Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	<u>\$(3,174,372)</u>
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Another element of that reconciliation explains that “capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds.” The details of this \$50,551,399 difference are as follows:

Capital assets used in governmental fund operations	\$69,374,650
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Less: Accumulated depreciation	<u>(18,823,251)</u>
--------------------------------	---------------------

Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	<u>\$50,551,399</u>
--	---------------------

Another element of that reconciliation explains that “Net Pension and Net OPEB Assets or Obligations are not considered to represent a financial resource or liability and, therefore, are not reported in the funds. The details of this \$962,307 difference are as follows:

Net pension obligation	\$ (17,872)
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Net OPEB obligation	<u>(944,435)</u>
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Net adjustment to decrease <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	<u>\$(962,307)</u>
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Another element of that reconciliation explains that “Other assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. The details of this \$649,955 difference are as follows:

Property taxes receivable	\$ 123,165
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Grants receivable – net	365,459
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Court ordered fines receivable – net	<u>161,331</u>
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Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	<u>\$ 649,955</u>
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**B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities**

The governmental funds statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total*

CITY OF KELSO  
Notes to the Financial Statements  
December 31, 2011

*governmental funds and changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense." The details of this \$277,293 difference are as follows:

Capital outlay	\$ 1,354,908
Depreciation expense	<u>(1,632,201)</u>
Net adjustment to decrease <i>net changes in funds balances-total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ (277,293)</u>

Another element of that reconciliation states that "Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds." The details of this \$391,410 difference are as follows:

Property taxes	\$ 6,873
Miscellaneous grants	365,459
Court ordered fines	<u>19,078</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i> .	<u>\$391,410</u>

Another element of that reconciliation states that "The issuance of long-term debt (e.g., bonds, notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this \$ 186,559 difference are as follows:

Debt issued or incurred:	
General obligation debt	\$ 2,710,000
Debt issue costs	(103,846)
Principal repayments:	
General obligation debt	(2,770,000)
Note payable	<u>(22,713)</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i> .	<u>\$ (186,559)</u>

CITY OF KELSO  
Notes to the Financial Statements  
December 31, 2011

Another element of that reconciliation states that "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this \$73,693 difference are as follows:

Compensated absences	\$ (17,233)
Amortization of issuance costs	<u>(56,460)</u>
Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i> .	<u>\$ (73,693)</u>

### III. Stewardship, compliance, and accountability

#### A. Budgetary information

Biennial budgets are adopted for the general and special revenue funds on the modified accrual basis of accounting. Proprietary fund budgets are also adopted utilizing the modified accrual basis of accounting. Except as noted below, for governmental funds, there are no material differences between the budgetary basis and generally accepted accounting principles. Budgetary accounts are integrated in funds ledgers for all budgeted funds, but the financial statements include budgetary comparisons for annually budgeted governmental funds only. Budgets for debt service and capital project funds are only required to be adopted at the level of the individual debt issue or project and for fiscal periods that correspond to the lives of the debt issues or projects, however the City of Kelso also budgets on a biennial basis as well. NCGA Statement 1 does not require, and the financial statements do not present, budgetary comparisons for proprietary fund types. Biennial budgets are adopted at the level of the fund, and the budgets constitute the legal authority for expenditures at that level. Subsidiary revenue and expenditure ledgers are used to compare the budgeted amounts with actual revenues and expenditures. As a management control device, the subsidiary ledgers monitor expenditures for individual functions and activities by object class. Appropriations for general and special revenue funds lapse at year-end.

The City of Kelso's budget procedures are mandated by RCW 35A.34. The following is a summary of the budget process:

Prior to November 1, of even-numbered years, the City Manager submits a proposed budget to the City Council. This budget is based on priorities established by the Council and estimates provided by City departments during the preceding months, and balanced with revenue estimates made by the City Manager. The Council conducts public hearings on the proposed budget in November and December. The Council makes its adjustments to the proposed budget and adopts by ordinance a final balanced budget no later than December 31. Within 30 days of adoption, the final budget is available to the public.

CITY OF KELSO  
Notes to the Financial Statements  
December 31, 2011

The City Manager is authorized to transfer budgeted amounts between departments within any fund and object classes within departments; however, any revisions that alter the total expenditures of a fund or that effect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the City Council. When the City Council determines that it is in the best interest of the City to increase or decrease the appropriation for a particular fund, it may do so by ordinance approved by a simple majority after holding two readings of the proposed ordinance amending the budget. The 2011 budget was amended five times. Budget amounts shown in the fund financial statements include the original budget amounts plus the revised budget amounts approved by the City Council.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is not employed by the City of Kelso.

**B. Budgetary/GAAP basis reconciliation**

In accordance with GASB Statement No. 54, the City reclassified certain funds within the governmental fund types for reporting purposes for fiscal year 2011. For budgetary and internal reporting the City classifies its street, library, parks, façade, and Kelso station funds as special revenue funds. Under GASB 54, these funds do not meet the criteria to be classified as special revenue funds and are reported as part of the general fund in the basic financial statements, thus creating a basis difference. Basis differences arise when the budgetary basis of accounting differs from the basis of accounting applicable to fund types when reporting on operations in accordance with GAAP. This difference is comprised of the following in the general fund:

<b>Revenues:</b>	
Street fund	\$ 554,031
Library fund	402,879
Kelso Station fund	60,685
Parks Fund	233,037
<b>Expenditures:</b>	
Street fund	(507,102)
Library fund	(404,149)
Kelso Station fund	(47,030)
Parks Fund	<u>(222,919)</u>
Total General fund Basis difference	<u>\$ 69,432</u>

**C. Deficit fund equity**

The Arterial Street Fund deficit of \$744,114 is due to accounting for an interfund loan in this fund while the capital assets constructed with the loan proceeds are not. A deficit balance is normal for this type of situation.

CITY OF KELSO  
Notes to the Financial Statements  
December 31, 2011

**IV. Detailed notes on all funds**

**A. Deposits and investments**

The City of Kelso's deposits are entirely covered by Federal Depository Insurance or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (WPDPC). Under State statute, members of WPDPC may be assessed losses on a prorated basis if the pool's collateral provides insufficient coverage. Deposits collateralized in the collateral pool are considered insured, and therefore not exposed to custodial credit risk. At year end, the City's carrying amount of deposits was \$1,443,088 and the bank balance was \$1,325,816.

As of December 31, 2011, the City had the following investments:

Investment	Maturities	Fair Value
State Treasurer's investment pool	< 90 days	<u>\$10,729,982</u>
Total investments		<u>\$10,729,982</u>

Interest Rate Risk

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The City does not have an investment policy that limits its investment choices. However, the City does follow State law regarding investment choices and accordingly has invested excess funds in the State investment pool which is allowed by State statute. The City's investment in the State's investment pool is not rated. However, the investment pool's investment policy limits the types of securities available for investment to obligations of the U.S. government or its agencies, obligations of government-sponsored corporations, bankers' acceptances, commercial paper, certificates of deposit, or obligations of the State of Washington or its political subdivisions. Bankers' acceptances and commercial paper must be rated with the highest short-term credit rating of any two Nationally Recognized Statistical Rating Organizations at the time of purchase.

Custodial Credit Risk – Investments

For investments, this is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that

CITY OF KELSO  
Notes to the Financial Statements  
December 31, 2011

are in the possession of an outside party. The City does not have a formal investment policy with regard to custodial credit risk, however, for all of 2011, the City invested only in the Washington State Local Government Investment Pool.

Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer.

**B. Receivables**

Receivables as of year end for the City's individual major funds and nonmajor funds in the aggregate, are as follows (amounts are expressed in thousands of dollars):

	<u>General</u>	<u>Arterial Street</u>	<u>Solid Waste</u>	<u>Water/ Sewer</u>	<u>Non-major Govt. Funds</u>	<u>Non-major Prop. Funds</u>	<u>Total</u>
Receivables:							
Taxes	\$123	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 123
Accounts	278	-	86	527	4	71	966
Special Assessments	-	34	-	-	-	-	34
Intergovernmental	33	524	8	-	155	151	871
Long-term notes	-	-	-	-	<u>777</u>	-	<u>777</u>
Net total receivables	<u>\$434</u>	<u>\$ 558</u>	<u>\$ 94</u>	<u>\$ 527</u>	<u>\$ 936</u>	<u>\$ 222</u>	<u>\$2,771</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes receivable (general fund)	\$ 123,165	\$ -
Delinquent Court ordered fines receivable (general fund)	161,331	-
Special assessments not due yet (arterial street fund)	34,435	-
Grants receivable (HUD grant fund)	99,629	-
Grants receivable (arterial street fund)	<u>265,830</u>	-
Total deferred/unearned revenue for governmental funds	<u>\$ 684,390</u>	<u>\$ -</u>

CITY OF KELSO  
Notes to the Financial Statements  
December 31, 2011

**C. Capital assets**

Capital asset activity for the year ended December 31, 2011 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$18,133,171	\$ -	\$ -	\$18,133,171
Construction in progress	<u>1,474,022</u>	<u>1,135,675</u>	<u>211,545</u>	<u>2,398,152</u>
Total capital assets, not being depreciated	<u>19,607,193</u>	<u>1,135,675</u>	<u>211,545</u>	<u>20,531,323</u>
Capital assets, being depreciated:				
Buildings	11,390,974	-	-	11,390,974
Improvements other than buildings	3,364,870	-	-	3,364,870
Machinery and equipment	2,447,811	119,747	235,479	2,332,079
Infrastructure	<u>32,737,881</u>	<u>327,656</u>	-	<u>33,065,537</u>
Total capital assets being depreciated	<u>49,941,536</u>	<u>447,403</u>	<u>235,479</u>	<u>50,153,460</u>
Less accumulated depreciation for:				
Buildings	3,238,695	288,966	-	3,527,661
Improvements other than buildings	1,150,146	217,548	-	1,367,694
Machinery and equipment	2,054,500	160,578	235,479	1,979,599
Infrastructure	<u>12,051,371</u>	<u>1,068,521</u>	-	<u>13,119,892</u>
Total accumulated depreciation	<u>18,494,712</u>	<u>1,735,613</u>	<u>235,479</u>	<u>19,994,846</u>
Total capital assets, being depreciated, net	<u>31,446,824</u>	<u>(1,288,210)</u>	-	<u>30,158,614</u>
Governmental activities capital assets, net	<u>\$51,054,017</u>	<u>\$ (152,535)</u>	<u>\$ 211,545</u>	<u>\$50,689,937</u>
	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 484,292	\$ -	\$ -	\$ 484,292
Construction in progress	<u>1,457,579</u>	<u>4,906,120</u>	<u>301,878</u>	<u>6,061,821</u>
Total capital assets, not being depreciated	<u>1,941,871</u>	<u>4,906,120</u>	<u>301,878</u>	<u>6,546,113</u>
Capital assets, being depreciated:				
Buildings and structures	7,358,137	-	-	7,358,137
Improvements other than buildings	26,859,378	301,878	-	27,161,256
Machinery and equipment	<u>3,804,502</u>	-	-	<u>3,804,502</u>
Total capital assets being depreciated	<u>38,022,017</u>	<u>301,878</u>	-	<u>38,323,895</u>
Less accumulated depreciation for:				
Buildings and structures	1,777,816	156,246	-	1,934,062
Improvements other than buildings	11,489,938	561,832	-	12,051,770
Machinery and equipment	<u>2,924,110</u>	<u>183,902</u>	-	<u>3,108,012</u>
Total accumulated depreciation	<u>16,191,864</u>	<u>901,980</u>	-	<u>17,093,844</u>
Total capital assets, being depreciated, net	<u>21,830,153</u>	<u>(600,102)</u>	-	<u>21,230,051</u>
Business-type activities capital assets, net	<u>\$23,772,024</u>	<u>\$ 4,306,018</u>	<u>\$ 301,878</u>	<u>\$27,776,164</u>

CITY OF KELSO  
Notes to the Financial Statements  
December 31, 2011

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities:	
General government	\$ 193,165
Security of persons and property	10,734
Transportation	1,157,898
Culture and recreation	270,404
Capital assets held by the City's internal service funds are charged to various functions based on usage of assets.	<u>103,412</u>
Total depreciation expense – governmental activities	<u>\$1,735,613</u>
Business-type activities:	
Water	\$ 342,399
Sewer	294,888
Storm drains	20,806
Airport	128,744
Capital assets held by the City's internal service funds are charged to various functions based on usage of assets.	<u>115,143</u>
Total depreciation expense – business-type activities	<u>\$ 901,980</u>

Construction commitments

The City of Kelso has active construction projects as of December 31, 2011. The projects include waterline and reservoir construction. At year end the City's commitments with contractors are as follows:

<u>Project</u>	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
Waterline replacement	\$ 456,954	\$ 180,372
Reservoir construction	<u>2,183,788</u>	<u>399,219</u>
Total	<u>\$ 2,640,742</u>	<u>\$ 579,591</u>

**D. Interfund receivables, payables, and transfers**

The composition of interfund balances as of December 31, 2011, is as follows:

**Due to/from other funds:**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Arterial Street	\$ 125,000	Grant reimbursements
General Fund	Nonmajor govt.	55,000	Parking lot improvements
G.O. Bond	Arterial Street	118,374	2010 overlay project

**Advances to/from other funds:**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Nonmajor govt.	\$ 55,000	Parking lot improvements
G.O. Bond	Arterial Street	640,943	2010 overlay project

CITY OF KELSO  
Notes to the Financial Statements  
December 31, 2011

**Interfund transfers:**

<u>Transfer out</u>	<u>Transfer in</u>	<u>Amount</u>	<u>Purpose</u>
General fund	Arterial Street	\$ 265,169	2011 overlay project
	G.O. Bond	148,828	Debt service
	Nonmajor prop.	20,000	Operating transfer - routine
	Nonmajor govt.	911	Routine operating
Arterial street fund	Nonmajor govt.	337	Operating transfer - routine
Nonmajor govt.	G.O. Bond	30,000	Debt service
Nonmajor govt.	Nonmajor govt.	20,000	Routine operating
Solid Waste	General fund	4,837	Equipment Purchase
Water/Sewer	General fund	14,509	Equipment Purchase
Nonmajor prop.	General fund	<u>4,836</u>	Equipment Purchase
Total		<u>\$ 509,427</u>	

**E. Long-term debt**

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital projects. During the year, general obligation refunding bonds totaling \$2,710,000 were issued to refund the 2003 general obligation bonds. \$2,660,000 of the proceeds were placed in an irrevocable trust for the purpose of paying off the refunded bond, in its entirety, in January, 2012. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the government activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$56,460. This amount is being netted against the new debt and amortized over the remaining life of the new debt. This advance refunding was undertaken to reduce total debt service payments over the next 17 years by \$236,291 and resulted in an economic gain of \$181,359.

General obligation bonds are direct obligations and pledge the full faith and credit of the City. These bonds generally are issued as 20-year serial bonds with varying amounts of principal maturing each year. The debt service on general obligation bonds is paid from debt service funds. Debt service for voter approved issues is funded by special property tax levies. Debt service for City Council authorized or Councilmanic issues are funded from general government revenue sources. General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities – City Hall construction	.60% – 3.80%	\$2,710,000
		<u>\$2,710,000</u>

CITY OF KELSO  
Notes to the Financial Statements  
December 31, 2011

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year ending December 31	Governmental activities	
	Principal	Interest
2012	\$ 125,000	\$ 70,073
2013	135,000	73,228
2014	135,000	72,080
2015	140,000	70,528
2016	140,000	68,428
2017-2021	755,000	295,685
2022-2026	880,000	175,633
2027-2031	400,000	22,990
Total	<u>\$2,710,000</u>	<u>\$ 848,645</u>

The City has also received several government loans for the construction of capital projects. Government loans outstanding at year-end are as follows:

Issuance	Purpose	Interest Rates	Amount
1998 PWTF – Allen St. Bridge	Governmental activities	3.00%	\$ 39,621
2002 PWTF – 16 <sup>th</sup> Avenue retaining wall	Governmental activities	4.00%	187,579
1999 DWSRF – water treatment plant	Business-type activities	2.50%	971,226
2001 DWSRF – water treatment plant	Business-type activities	1.50%	875,514
City of Longview – airport hangars	Business-type activities	4.25 – 6.00%	70,000
Total government loans			<u>\$2,143,940</u>

Annual debt service requirements to maturity for governmental loans are as follows:

Year ending December 31	Governmental activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2012	\$ 22,713	\$ 8,692	\$ 202,506	\$ 41,613
2013	22,713	7,840	202,506	36,822
2014	22,713	6,988	207,506	32,030
2015	22,713	6,136	207,506	26,938
2016	22,713	5,284	187,507	21,847
2017-2021	96,583	14,152	829,617	50,856
2022-2026	17,052	682	79,592	1,194
Total	<u>\$227,200</u>	<u>\$ 49,774</u>	<u>\$1,916,740</u>	<u>\$211,300</u>

#### Revenue bonds

The City also issues bonds where the City pledges income derived from the acquired or constructed assets to pay debt service. In 2010, the City of Kelso issued \$4,475,000 of revenue bonds. These Water and Sewer Revenue Bonds, 2010 Series A (Tax-Exempt Bonds) (the “Series A Bonds”) in the aggregate principal amount of \$810,000 and the Water and Sewer Revenue Bonds, 2010 Series B (Taxable Recovery Zone Economic Development Bonds – Direct Payment) (the “Series B Bonds,”) in the aggregate principal amount of \$3,665,000, were issued to provide the funds necessary to construct a new water reservoir and replace certain water mains and water meters in the City. The City has designated the Series B Bonds as “recovery zone economic

CITY OF KELSO  
Notes to the Financial Statements  
December 31, 2011

development bonds” for purposes of Section 1400U-2 of the Internal Revenue Code, such that a Tax Credit Subsidy Payment will be allowed to the City pursuant to Section 6431 of the Code in an amount equal to 45% of the interest payable on the Series B Bonds on each interest payment date. The interest rate on the “Series A” bonds range from 1.10% – 3.25% and the maturity date is December 1, 2018. The interest rate on the “Series B” bonds range from 5.50%\* – 7.40%\* and the maturity date is December 1, 2031. The original amount of revenue bonds issued in prior years was \$5,390,000.

\* Interest rate shown is not net of federal subsidy

Revenue bonds outstanding at year end are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Business-type activities – refunding	2.40% - 4.20%	\$ 675,000
Business-type activities – tax exempt	1.10% - 3.25%	710,000
Business-type activities – taxable	5.50% - 7.40%	<u>3,665,000</u>
		<u>\$5,050,000</u>

Revenue bond debt service requirements to maturity are as follows:

<u>Year ending December 31</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest*</u>
2012	\$ 185,000	\$ 297,305
2013	190,000	292,738
2014	195,000	287,198
2015	195,000	280,850
2016	200,000	274,255
2017-2021	1,110,000	1,249,083
2022-2026	1,345,000	889,286
2027-2031	<u>1,630,000</u>	<u>371,110</u>
Total	<u>\$5,050,000</u>	<u>\$3,941,825</u>

\*Interest is not net of Federal Subsidy

### Changes in long-term liabilities

Long-term liability activity for the year ended December 31, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental activities:</b>					
General obligation bonds	\$2,770,000	\$2,710,000	\$2,770,000	\$2,710,000	\$ 125,000
Public Works Trust Fund	249,913	-	22,713	227,200	22,713
Compensated absences	313,599	330,832	313,599	330,832	82,708
Net Pension obligation	10,089	7,783	-	17,872	-
Net OPEB obligation	<u>786,249</u>	<u>158,186</u>	<u>-</u>	<u>944,435</u>	<u>-</u>
Governmental activity Long-term liabilities	<u>\$4,129,850</u>	<u>\$3,206,801</u>	<u>\$3,106,312</u>	<u>\$4,230,339</u>	<u>\$ 230,421</u>

CITY OF KELSO  
Notes to the Financial Statements  
December 31, 2011

<b>Business-type activities:</b>					
Revenue bonds	\$5,235,000	\$ -	\$ 185,000	\$5,050,000	\$ 185,000
Drinking Water State Revolving Fund	2,034,246	-	187,506	1,846,740	187,507
Notes payable	85,000	-	15,000	70,000	15,000
Compensated absences	<u>99,883</u>	<u>114,222</u>	<u>99,883</u>	<u>114,222</u>	<u>28,555</u>
Business-type activity Long-term liabilities	<u>\$7,454,129</u>	<u>\$ 114,222</u>	<u>\$ 487,389</u>	<u>\$7,080,962</u>	<u>\$ 416,062</u>

For the governmental activities, compensated absences are generally liquidated by the general fund. Pension and OPEB liabilities are liquidated by the general or firemen's pension funds.

## V. Other information

### A. Risk management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City carries insurance.

The City of Kelso is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. WCIA has a total of 150 members.

New members initially contract for a three year term, and thereafter automatically renew on an annual basis. A one year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded

CITY OF KELSO  
Notes to the Financial Statements  
December 31, 2011

from the members' deductible to \$500,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines. These revenues directly offset portions of the membership's annual assessment.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

Settlements have not exceeded coverages for each of the past three fiscal years.

#### **B. Property Taxes**

The County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities.

<u>Property Tax Calendar</u>	
January 1	Taxes are levied and become an enforceable lien against properties.
February 14	Tax bills are mailed.
April 30	First of two equal installment payments is due.
May 31	Assessed value of property established for next year's levy at 100 percent of market value.
October 31	Second installment is due.

CITY OF KELSO  
Notes to the Financial Statements  
December 31, 2011

Property taxes are recorded as a receivable when levied, offset by a deferred revenue. During the year, property tax revenues are recognized when cash is collected. The amount of taxes receivable at year-end that would be collected soon enough to be available to pay liabilities of the current period is immaterial.

The City of Kelso may levy up to \$3.60 per \$1,000 of assessed valuation for general governmental services and 22.5 cents per \$1,000 for local Fire Pension Funds. However, the amount is reduced by the Fire District #2 annexation. Fire District #2 may levy up to a maximum of \$1.50 per \$1,000 of assessed valuation. The City's levy is also subject to the following two limitations:

The Washington State Constitution limits the total regular property taxes to 1 percent of assessed valuation or \$10 per \$1,000 of value. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the 1 percent limit.

Washington State law in RCW 84.55.010 limits the growth of regular property taxes to the lesser of 1 percent per year, or the Implicit Price Deflator. Adjustments for new construction are excluded from this calculation. If the assessed valuation increases by more than 1 percent due to revaluation, the levy rate will be decreased.

The City's regular levy for 2011 was \$1.7643 per \$1,000 on an assessed valuation of \$753,399,152 for a total regular levy of \$1,329,252.

#### **C. Contingent liabilities**

Amounts received or receivable from grant agencies are subject to audit and adjustment by the grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by these grantors, cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the City.

#### **D. Joint Venture**

In 1996 the City of Kelso entered into an interlocal agreement with Cowlitz County, the City of Longview, and Beacon Hill Sewer District, to form the Three Rivers Regional Waste Water Authority (TRRWA). The TRRWA was created so that the participating entities can equitably share in the operations and improvements of the central sewage treatment facility. The TRRWA is governed by a four member board. This board is made up of an appointed representative from each jurisdiction. Each

CITY OF KELSO  
Notes to the Financial Statements  
December 31, 2011

entity is obligated to make monthly payments to the TRRWA based on the following criteria: TRRWA formulates its preliminary annual budget by the last working day of September each year. Each entity's appointed representative then submits its proportionate share of TRRWA's budget to their respective jurisdiction for incorporation of the expense into the entity's sewer enterprise fund budget. Expenses for maintenance and operations, repairs and replacements to existing facilities, and debt service are funded by the participating entities based on their proportionate share of flow to the Facilities as determined by the TRRWA. Capital improvements to the Facility are funded by System Development Charges by each entity's sewage utility fund or in proportion to each jurisdictions respective flow to the facilities. Payments made to TRRWA by the City in 2011 were \$2,354,478. This agreement may not be terminated so long as there remains outstanding any bonds or other debt or loan obligations payable from the TRRWA rates described above. Upon termination of the agreement, each entity's interest in the net assets shall be deemed to be equal to their proportionate share of payments over the then previous 12 calendar months. The City does not have an equity interest in the TRRWA. Complete financial statements for the TRRWA can be obtained from the TRRWA at 207 4<sup>th</sup> Avenue North, Kelso, WA 98626.

**E. Post employment benefits other than pension benefits**

**Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)**

*Plan description.* The City of Kelso administers a single-employer defined benefit healthcare plan. The plan provides post-retirement health care benefits, in accordance with state statute to all LEOFF 1 (law enforcement officers and fire fighters hired prior to October 1, 1977) retirees. Currently, there are 19 LEOFF 1 retirees who are eligible to receive necessary medical and hospitalization coverage.

The City reimburses one hundred percent of the amount of validated claims for medical and hospitalization costs incurred by retirees. State statute provides that the City's responsibility for medical payments of LEOFF 1 retirees is secondary to any other coverage retirees receive or are eligible to receive. Therefore, upon reaching age 65, the City requires the retirees to apply for and utilize Medicare Part B coverage. In 2011, the City's cost for these Medicare premiums was \$18,679. This expenditure represents a fixed amount of approximately \$111 per month for 14 LEOFF 1 retirees.

*Funding Policy.* Employer contributions are financed on a pay-as-you-go basis. Expenditures for post-retirement health care benefits are recognized as retirees report claims. During the year, expenditures of \$306,262 were recognized for post-retirement health care.

*Annual OPEB Cost and Net OPEB Obligation.* The City's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The City has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB

CITY OF KELSO  
Notes to the Financial Statements  
December 31, 2011

statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed fifteen years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation to the plan:

Annual required contribution	\$502,277
Interest on net OPEB obligation	35,382
Adjustment to annual required contribution	<u>(73,211)</u>
Annual OPEB cost	464,448
Contributions made	<u>306,262</u>
Increase in net OPEB obligation	158,186
Net OPEB obligation beginning of year	<u>786,249</u>
Net OPEB obligation end of year	<u>\$944,435</u>

Three Year Trend Information:

<u>Fiscal Year Ending</u>	<u>Annual OPEB Percentage Contributed</u>		<u>Net OPEB Obligation</u>
	<u>Annual OPEB Cost</u>	<u>Percentage of annual OPEB cost contributed</u>	
12/31/09	\$535,554	51.82%	\$562,227
12/31/10	\$520,093	56.93%	\$786,249
12/31/11	\$464,448	65.94%	\$944,435

*Funded Status and Funding Progress.* As of December 31, 2011, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$5,394,230, all of which was unfunded. The covered payroll ratio is not applicable to this plan as all members are retired.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about mortality and the healthcare cost trend.

Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

CITY OF KELSO  
Notes to the Financial Statements  
December 31, 2011

*Methods and Assumptions.* Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and historical patterns of benefit costs incurred by the employer to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

*Marital status-* Not applicable, spouses are not eligible for benefits.

*Termination and Mortality-* Termination and mortality rates were assumed to follow the LEOFF 1 termination and mortality rates used in the June 30, 2009 actuarial valuation report issued by the Office of the Washington State Actuary (OSA). A single retirement age of 56.24 was assumed for all active members for the purposes of determining the actuarial accrued liability and normal cost.

*Healthcare cost trend rate-* The expected rate of increase in healthcare costs was based on projections made by an independent actuary and used by OSA in a state-wide LEOFF 1 medical study performed in 2007. These 2007 projections were rolled over to OSA's 2009 study. A rate of 7.6 percent initially, reduced to an ultimate rate of 5.0 percent after 2016, was used.

*Health insurance premiums-* A 2007 survey of LEOFF 1 employers' health insurance premiums for retirees was used as the basis for calculation of the present value of total benefits to be paid.

Based on the historical and expected returns of the city's short-term investment portfolio, a discount rate of 4.5 percent was used. In addition, the projected unit credit actuarial cost method was used to determine the actuarial accrued liability, with results based on grouped data of 4 active and 4 inactive groupings. The unfunded actuarial accrued liability is being amortized as a level dollar amount. The remaining amortization period at December 31, 2011, is fifteen years.

This OPEB plan does not issue a stand-alone financial report nor is it included in the report of another entity.

**Association of Washington Cities Employee Benefit Trust ("Trust")**

*Trust Description.* The City is a Participating Employer in the Association of Washington Cities Employee Benefit Trust ("Trust"), a cost-sharing multiple-employer welfare benefit plan administered by the Association of Washington Cities. The Trust provides medical benefits to certain eligible retired employees of Participating Employers and their eligible family members. Under Article VII of the Trust document, the Trustees have the authority and power to amend the amount and

CITY OF KELSO  
Notes to the Financial Statements  
December 31, 2011

the nature of the medical and other benefits provided by the Trust. The Trust issues a publicly available financial report that includes financial statements and requires supplementary information for the Trust. That report, along with a copy of the Trust document, may be obtained by writing to Trust at 1076 Franklin Street SE, Olympia, WA 98501-1346 or by calling 1-800-562-8981.

*Funding Policy.* The Trust provides that contribution requirements of Participating Employers and of participating employees, retirees and other beneficiaries, if any, are established and may be amended by the Board of Trustees of the Trust. Retirees of the City receiving medical benefits from the Trust contribute \$703.45 per month for non-Medicare enrolled retiree-only coverage, \$1,411.45 for non-Medicare enrolled retiree and spouse coverage, \$1,083.55 for Medicare enrolled retiree and non-Medicare enrolled spouse (or non-Medicare enrolled retiree and Medicare –enrolled spouse) and \$755.70 for Medicare-enrolled retiree and spouse coverage.

Currently, retiring employees from a Trust member employer have several retiree medical plans to choose from. The AWC Trust works directly with the retired employee, and no monies pass through the former employer. Additionally, the AWC Trust pools the health care costs of the retiree medical programs, and rates the programs accordingly. Currently, the AWC Trust Board of Trustees have committed to a retiree medical plan subsidy of 25% which is drawn from the accumulated medical reserve fund. The medical reserves have accumulated over the years from excess premium contributions of employers, active employees and retirees in favorable claims years. The Trust Board of Trustees can change their retiree medical plan subsidy policy in any given year.

Participating Employers are contractually required to contribute at a rate assessed each year by the Trust. The City's Contributions to the Trust for the year ended December 31, were:

<u>Year</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2009	\$689,235	100%
2010	\$713,671	100%
2011	\$714,686	100%

**F. Employee retirement systems and pension plans**

Substantially all City of Kelso full-time and qualifying part-time employees participate in one of the following statewide local government retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive

CITY OF KELSO  
Notes to the Financial Statements  
December 31, 2011

annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. A copy of this report may be obtained from the Department of Retirement Systems, Communications Unit, PO Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

The following disclosures are made pursuant to GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers* and No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and 27*.

**Public Employees' Retirement System (PERS)**

*Plan description.* PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not in national higher education retirement programs; judges of district and municipal courts; and employees of local governments. Participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live. PERS defined benefit retirement benefits are financed from a combination of employee and employer contributions and investment earnings. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual benefit is 2 percent of the average final compensation (AFC) per year of service, capped at 60 percent. The AFC is based on the greatest compensation during any 24 eligible consecutive compensation months. This annual benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. Plan 1 members who retire from inactive status prior to the age of 65 may receive actuarially

CITY OF KELSO  
Notes to the Financial Statements  
December 31, 2011

reduced benefits. The benefit is actuarially reduced to reflect the choice of a survivor option. A cost-of-living allowance (COLA) was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may also elect to receive an optional COLA amount that provides an automatic annual adjustment based on the Consumer Price Index, capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. A cost-of-living allowance was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may elect to receive an optional COLA amount that provides an automatic annual adjustment based on the Consumer Price Index, capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

PERS Plan 2 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions: With a benefit that is reduced by 3 percent for each year before age 65. With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit; and a cost-of-

CITY OF KELSO  
Notes to the Financial Statements  
December 31, 2011

living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

The surviving spouse or eligible child or children of a PERS Plan 2 member who dies after leaving eligible employment having earned ten years of service credit may request a refund of the member's accumulated contributions.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. The defined benefit portion provides a monthly benefit that is 1 percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits: If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65. If they have 30 service credit years and are at least 55 years old, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

PERS Plan 3 defined benefit retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit and Plan 3 provides the same cost-of-living allowance as Plan 2.

PERS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities.

The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Director of the Department of Retirement Systems.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service.

These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no

CITY OF KELSO  
Notes to the Financial Statements  
December 31, 2011

cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions. Effective July 24, 2005, a member who becomes totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible children, may apply for interruptive military service credit. Additionally, PERS Plan 2 and Plan 3 members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Department of Labor and Industries.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a PERS member who dies in the line of service as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of said member's covered employment, if found eligible by the Department of Labor and Industries.

There are 1,197 participating employers in PERS. Membership consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2010:

Retirees and Beneficiaries Receiving Benefits	76,899
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	28,860
Active Plan Members Vested	105,521
Active Plan Members Nonvested	<u>51,005</u>
Total	<u>262,285</u>

*Funding policy.* Each biennium, the State Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local governmental unit employees, and 7.5% for state government elected officers. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance

CITY OF KELSO  
Notes to the Financial Statements  
December 31, 2011

the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. The methods used to determine the contribution rates are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of covered payroll, as of December 31, 2011 were:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	7.25%**	7.25%**	7.25%***
Employee	6.00%****	4.64****	*****

\* The employer rates include the employer administrative expense fee currently set at 0.16%

\*\* The employer rate for state elected officials is 10.80% for Plan 1 and 7.25% for Plan 2 and Plan 3.

\*\*\* Plan 3 defined benefit portion only

\*\*\*\* The employee rate for state elected officials is 7.50% for Plan 1 and 4.64% for Plan 2

\*\*\*\*\* Variable from 5% minimum to 15% maximum based on rate selected by the PERS 3 member

Both the City of Kelso and the employees made the required contributions. The City of Kelso's required contributions for the years ended December 31, were:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2011	\$6,881	\$210,683	\$34,167
2010	\$18,999	\$205,845	\$29,420
2009	\$20,869	\$265,368	\$32,859

#### **Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)**

*Plan description.* LEOFF is a cost-sharing multiple employer retirement system comprised of two separate defined benefit pension plans. LEOFF participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined thereafter are Plan 2 members. Membership in the system includes all full time, fully compensated, local law enforcement officers, firefighters and, as of July 24, 2005, those emergency medical technicians who were given the option and chose LEOFF Plan 2 membership. LEOFF is comprised primarily of non-state employees, with the Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 27, 2003 being an exception. Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature for the LEOFF 2 retirement plan. LEOFF benefits are financed by employee and employer contributions, investment earnings and a special funding situation in which the State pays the remainder through State legislative appropriations. LEOFF retirement provisions are established in State statute and may be amended only by the State Legislature.

CITY OF KELSO  
Notes to the Financial Statements  
December 31, 2011

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 participants are eligible to retire with five years of service at age 50.

The benefit per year of service calculated as a percent of final average salary is as follows:

<b>Term of Service</b>	<b>Percent of Final Average Salary</b>
20 or more years	2.0%
10 but less than 20 years	1.5%
5 but less than 10 years	1.0%

The final average salary (FAS) is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. A cost-of-living allowance is granted (based on the Consumer Price Index).

LEOFF Plan 1 provides death and disability benefits. Death benefits for survivors of Plan 1 members on active duty consist of the following: (1) If eligible spouse, 50 percent of the FAS, plus 5 percent of FAS for each eligible surviving child, with a limitation on the combined allowances of 60 percent of the FAS; or (2) If no eligible spouse, eligible children receive 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS, divided equally.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, if found eligible by the Department of Labor and Industries.

The LEOFF Plan 1 disability allowance is 50 percent of the FAS plus 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability allowance or service retirement allowance.

LEOFF Plan 1 members may purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's allowance.

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 participants are eligible to retire at the age of 50 with 20 years of service, or at the age of 53 with five years of service, with an allowance of 2 percent of the final average salary per year of service. The final average salary is based on the highest consecutive 60 months. Plan 2 retirements prior to age 53 are actuarially

CITY OF KELSO  
Notes to the Financial Statements  
December 31, 2011

reduced for each year that the benefit commences prior to age 53 and to reflect the choice of a survivor option. If a member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the FAS for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 53, unless the disability is duty-related, and to reflect the choice of a survivor option. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. A catastrophic disability benefit equal to 70 percent of their FAS, subject to offsets for workers' compensation and Social Security disability benefits received, is also available to those LEOFF Plan 2 members who are severely disabled in the line of duty and incapable of future substantial gainful employment in any capacity.

Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

Members of LEOFF Plan 2 who leave service because of a line of duty disability are allowed to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax. Alternatively, members of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to receive a retirement allowance of at least 10 percent of FAS and 2 percent per year of service beyond five years. The first 10 percent of the FAS is not subject to federal income tax.

LEOFF Plan 2 retirees may return to work in an eligible position covered by another retirement system, choose membership in that system and suspend their pension benefits, or not choose membership and continue receiving pension benefits without interruption.

LEOFF Plan 2 members who apply for retirement may purchase up to five years of additional service credit. The cost of this credit is the actuarial equivalent of the resulting increase in the member's benefit.

LEOFF Plan 2 members can purchase service credit for military service that interrupts employment. Additionally, LEOFF Plan 2 members who become totally incapacitated for continued employment while serving in the uniformed services may apply for interruptive military service credit. Should any such member die during this active duty, the member's surviving spouse or eligible child(ren) may purchase service credit on behalf of the deceased member.

CITY OF KELSO  
Notes to the Financial Statements  
December 31, 2011

LEOFF Plan 2 members may also purchase up to 24 consecutive months of service credit for each period of temporary duty disability.

Beneficiaries of a LEOFF Plan 2 member who is killed in the course of employment receive retirement benefits without actuarial reduction, if found eligible by the Director of the Department of Labor and Industries.

Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of on-going health care insurance premiums paid to the Washington State Health Care Authority.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 2 member who dies as a result of injuries or illness sustained in the course of employment, if found eligible by the Department of Labor and Industries.

There are 374 participating employers in LEOFF. Membership consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2010:

Retirees and Beneficiaries Receiving Benefits	9,647
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	782
Active Plan Members Vested	13,420
Active Plan Members Nonvested	<u>3,656</u>
<b>Total</b>	<b><u>27,505</u></b>

*Funding policy.* Starting on July 1, 2000, Plan 1 employers and employees will contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. All employers are required to contribute at the level required by state law. The Legislature, by means of a special funding arrangement, appropriated money from the State General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the requirements of the Pension Funding Council and by the LEOFF Plan 2 Retirement Board. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute.

CITY OF KELSO  
Notes to the Financial Statements  
December 31, 2011

The required contribution rates expressed as a percentage of covered payroll, as of December 31, 2011 were:

	LEOFF Plan 1	LEOFF Plan 2
Employer*	.16%	5.24%**
Employee	0%	8.46%
State	N/A	3.38%

\* The employer rates include the employer administrative expense currently set at 0.16%  
 \*\* The employer rates for ports and universities is 8.62%

Both the City of Kelso and the employees made the required contributions. The City's required contributions for the years ended December 31, were:

	LEOFF Plan 1	LEOFF Plan 2
2011	\$0	\$263,777
2010	\$0	\$288,773
2009	\$40	\$286,731

#### Other Local Government Pension System

*Plan description.* The City of Kelso is also the administrator of a pension retirement system called the Firemen's Pension Fund. The Firemen's Pension Fund is a single employer defined benefit retirement plan. It is a closed plan that provides pension benefits some of which can be in excess of LEOFF benefits. The methods used to determine the amount of benefits payable are established under state statute in accordance with chapters 41.18 RCW(PRE-LEOFF) and 41.26 RCW(LEOFF). These statutes require a varying obligation of the City for benefits paid to Firefighters:

1. Pension benefits for firefighters retired prior to March 1, 1970, are to be paid in their entirety by the City in accordance with 41.18 RCW.
2. Firefighters hired before, but not retired on March 1, 1970, receive at retirement the greater of the pension benefit provided under PRE-LEOFF or under LEOFF. Any excess of the PRE-LEOFF benefit over the LEOFF benefit is provided by the City.

As of December 31, 2011, there were a total of 11 (all retired after March 1, 1970) retirees or widows included in the Firemen's Pension Fund.

The Firemen's Pension Fund does not issue a stand-alone financial report nor is it included in the report of another entity.

CITY OF KELSO  
Notes to the Financial Statements  
December 31, 2011

*Summary of Significant Accounting Policies.* The financial statements of the Firemen's Pension Fund are prepared using the accrual basis of accounting. Revenues are recognized in the period in which they become due or are earned. Benefits paid by the Fund are recognized when due and payable in accordance with the terms of the plan. All pension fund investments are reported at fair value.

*Funding policy.* Contributions to the plan are provided entirely by the City. The major sources of revenue to fund contributions include sales and property taxes, fire insurance premium taxes and interest earnings on investments. Pursuant to RCW 41.16.060 the City levies an additional 22.5 cents per \$1,000 of assessed value to pay expenses of the Firemen's Pension Fund. GASB Statements No. 25 and 27 require the performance of biennial actuarial valuations to determine minimum annual funding requirements. However, due to the small size of the plan and the fact that it is a closed plan, it is management's opinion that the cost of an additional actuarial would outweigh the benefits. Actual expenses for pension benefits in 2011 were \$54,168. Administrative costs of the plan are immaterial and financed on a pay-as-you-go basis for 2011. The results of the City's most recent actuarial is as follows:

The City is required to contribute an actuarially determined amount of \$94,444.

*Annual Pension Cost (APC).* For 2011, the City's annual pension cost (APC) and net pension obligation were as follows:

Annual required contribution	\$94,444
Interest on net pension obligation	706
Adjustment to annual required contribution	<u>(870)</u>
Annual pension cost	94,280
Contributions made	<u>86,497</u>
Increase in net pension obligation	7,783
Net pension obligation beginning of year	<u>10,089</u>
Net pension obligation end of year	<u>\$ 17,872</u>

The required contribution was determined as part of the January 1, 2000, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included 7% investment rate of return and projected salary increases of 5% per year. The actuarial value of assets was determined using fair market value. The unfunded actuarial accrued liability is being amortized as a level dollar amount over a closed 30-year period. The remaining amortization period at December 31, 2011 is 19 years.

CITY OF KELSO  
Notes to the Financial Statements  
December 31, 2011

Firemen's Pension Fund Three Year Trend Information:

<u>Annual Pension Percentage of APC</u>			
<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Contribution as a Percentage of APC</u>	<u>Net Pension Obligation</u>
12/31/09	\$94,814	92.42%	\$(15,555)
12/31/10	\$94,726	72.93%	\$ 10,089
12/31/11	\$94,280	91.74%	\$ 17,872

*Funded status and Funding progress.* As of January 1, 2000, the most recent actuarial valuation date, the plan was 9.01 percent funded. The actuarial accrued liability for benefits was \$1,288,000 and the actuarial value of assets was \$116,000, resulting in an unfunded actuarially accrued liability (UAAL) of 1,172,000. The ratio of the UAAL to the covered payroll of the City is not applicable as all members are retired.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	January 1, 2000
Actuarial cost method	Entry Age Normal
Amortization method	Level dollar
Remaining amortization period	19 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	7%
Projected salary increases	5%
Projected inflation rate	4%

## G. Reporting Changes

### Implementation of GASB 54

For fiscal years that begin after June 15, 2010, GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, became effective. This GASB became effective for the City of Kelso in 2011.

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**CITY OF KELSO  
REQUIRED SUPPLEMENTARY INFORMATION  
DECEMBER 31, 2011**

Firemen's Pension Fund:

Schedule of Funding Progress:

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Funding Ratio	Unfunded AAL	Total Pay	Unfunded AAL/Total Pay
1/1/95	\$22,436	\$1,773,969	1.26%	\$1,751,533	N/A	N/A
1/1/00	116,000	1,288,000	9.01%	1,172,000	N/A	N/A

Note: Total pay is not applicable because only retired firefighters are covered by the fund.

The fair market value of plan assets at December 31, 2011 is \$286,394.

Schedule of Employer Contributions:

Fiscal Year	Fire Insurance Premium Tax	Actual Employer Contributions	Total Employer Contributions	Annual Required Contribution (ARC)	Percentage of ARC Contributed
2007	\$9,630	\$ 75,526	\$ 85,156	\$94,444	90.2%
2008	\$10,014	\$ 78,094	\$ 88,108	\$94,444	93.3%
2009	\$9,548	\$ 78,082	\$ 87,630	\$94,444	92.8%
2010	\$10,167	\$ 58,916	\$ 69,083	\$94,444	73.1%
2011	\$10,620	\$ 75,878	\$ 86,497	\$94,444	91.6%

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated.

Other Postemployment Benefits Other Than Pensions

Schedule of Funding Progress:

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Funding Ratio	Unfunded AAL	Total Pay	Unfunded AAL/Total Pay
12/31/08	\$ 0	\$5,910,503	0%	\$5,910,503	N/A	N/A
12/31/11	\$ 0	\$5,394,230	0%	\$5,394,230	N/A	N/A

Note: Total pay is not applicable because only retired members are covered by the plan.

The fair market value of plan assets at December 31, 2011 is \$0.

**CITY OF KELSO**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2011**

Schedule of Employer Contributions:

<u>Fiscal Year</u>	<u>Total Employer Contributions</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage of ARC Contributed</u>
2009	\$ 277,549	\$550,349	50.4%
2010	\$ 296,071	\$550,349	53.8%
2011	\$ 306,262	\$502,277	61.0%

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated.

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## **Nonmajor Governmental Funds**

### **Special Revenue Funds**

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

Paths & Trails Fund – this fund is used to account for the receipt of .5% of the State fuel taxes. Expenditures are restricted for City paths & trails.

Stadium Fund – this fund is used to account for the City's share of hotel-motel taxes which are used for the promotion of tourism and for the acquisition and/or operation of tourism related facilities.

Highlander Festival Fund – this fund is used to account for the revenues and expenditures associated with the City's annual festival.

Tam O'Shanter Park Fund – this fund is used to account for donated monies to be used for improvements at Tam O'Shanter Park.

The *HUD grant fund* accounts for the resources accumulated through Community Development Block Grants to implement neighborhood rehabilitation programs to assist low to moderate income property owners rehabilitate their properties.

Criminal Justice Fund – this fund is used to account for State-distributed money for criminal justice purposes only. This fund also accounts for revenues and expenditures associated with the City's drug task force.

### **Capital Projects Fund**

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

City Hall Fund – this fund accounts for the receipt and expenditure of the restricted Real Estate Excise Tax distributed by the State to the City. These funds were used to construct a portion of the new city hall and to pay the future debt service on the new city hall.

**City of Kelso**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**December 31, 2011**

	Special Revenue					
	Paths/ Trails	Stadium	Highlander Festival	Tam O'Shanter Park	HUD Block Grant	Criminal Justice
<b>Assets</b>						
Cash & cash equivalents	\$ 35,977	\$ 241,176	\$ 2,803	\$ 14,783	\$ 699,392	\$ 10,834
Receivables (net)						
Accounts	-	-	425	-	-	-
Due from other governments	-	-	-	-	100,684	54,346
Long-term notes receivable	-	-	-	-	777,067	-
<b>Total Assets</b>	<u>35,977</u>	<u>241,176</u>	<u>3,228</u>	<u>14,783</u>	<u>1,577,143</u>	<u>65,180</u>
<b>Liabilities</b>						
Accounts payable	-	8,129	3,211	-	2,191	27
Due to other funds	-	55,000	-	-	-	-
Advances from other funds	-	55,000	-	-	-	-
Deferred revenue	-	-	-	-	99,629	-
<b>Total Liabilities</b>	<u>-</u>	<u>118,129</u>	<u>3,211</u>	<u>-</u>	<u>101,820</u>	<u>27</u>
<b>Fund Balances</b>						
Nonspendable:						
Long-term notes	-	-	-	-	777,067	-
Restricted for:						
Paths and trails	35,977	-	-	-	-	-
Capital projects	-	-	-	-	-	-
Promotion of tourism	-	123,047	-	-	-	-
Housing/neighborhood rehabilitation	-	-	-	-	555,644	-
Criminal justice	-	-	-	-	-	65,153
Parks	-	-	-	14,783	-	-
Assigned to:						
Other purposes	-	-	17	-	142,612	-
<b>Total Fund Balance</b>	<u>35,977</u>	<u>123,047</u>	<u>17</u>	<u>14,783</u>	<u>1,475,323</u>	<u>65,153</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 35,977</u>	<u>\$ 241,176</u>	<u>\$ 3,228</u>	<u>\$ 14,783</u>	<u>\$ 1,577,143</u>	<u>\$ 65,180</u>

**City of Kelso**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**December 31, 2011**

	Total Non-Major Special Revenue Funds	Capital projects City Hall Fund	Total Non-Major Governmental Funds
<b>Assets</b>			
Cash & cash equivalents	\$ 1,004,965	\$ 35,974	\$ 1,040,939
Receivables (net)			
Accounts	425	-	425
Due from other governments	155,030	-	155,030
Long-term notes receivable	777,067	-	777,067
Total Assets	<u>1,937,487</u>	<u>35,974</u>	<u>1,973,461</u>
<b>Liabilities</b>			
Accounts payable	13,558	-	13,558
Due to other funds	55,000	-	55,000
Advances from other funds	55,000	-	55,000
Deferred revenue	99,629	-	99,629
Total Liabilities	<u>223,187</u>	<u>-</u>	<u>223,187</u>
<b>Fund Balances</b>			
Nonspendable:			
Long-term notes	777,067	-	777,067
Restricted for:			
Paths and trails	35,977	-	35,977
Capital projects	-	35,974	35,974
Promotion of tourism	123,047	-	123,047
Housing/neighborhood rehabilitation	555,644	-	555,644
Criminal justice	65,153	-	65,153
Parks	14,783	-	14,783
Assigned to:			
Other purposes	142,629	-	142,629
Total Fund Balance	<u>1,714,300</u>	<u>35,974</u>	<u>1,750,274</u>
Total Liabilities and Fund Balances	<u>\$ 1,937,487</u>	<u>\$ 35,974</u>	<u>\$ 1,973,461</u>

**City of Kelso**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the fiscal year ended December 31, 2011**

	Special Revenue					
	Paths and Trails	Stadium	Highlander Festival	Tam O'Shanter Park	Hud Block Grant	Criminal Justice
<b>Revenues</b>						
Taxes	\$ -	\$ 133,521	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-	-	406,031
Charges for services	-	-	26,094	-	-	-
Investment earnings	47	466	-	24	2,123	17
Miscellaneous	-	46	12,304	-	-	243
Total revenues	<u>47</u>	<u>134,033</u>	<u>38,398</u>	<u>24</u>	<u>2,123</u>	<u>406,291</u>
<b>Expenditures</b>						
Security of persons and property	-	-	-	-	-	393,593
Economic Environment	-	-	-	-	111,661	-
Culture and recreation	-	106,083	58,778	-	-	-
Debt service:						
Interest and fiscal charges	-	276	-	-	-	-
Total expenditures	<u>-</u>	<u>106,359</u>	<u>58,778</u>	<u>-</u>	<u>111,661</u>	<u>393,593</u>
Excess (deficiency) of revenues over (under) expenditures	<u>47</u>	<u>27,674</u>	<u>(20,380)</u>	<u>24</u>	<u>(109,538)</u>	<u>12,698</u>
<b>Other financing sources (uses)</b>						
Transfers in	1,248	-	20,000	-	-	-
Transfers out	-	(20,000)	-	-	-	-
Total other financing sources (uses)	<u>1,248</u>	<u>(20,000)</u>	<u>20,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	1,295	7,674	(380)	24	(109,538)	12,698
Fund balances - beginning	34,682	115,373	397	14,759	1,584,861	52,455
Fund balances - ending	<u>\$ 35,977</u>	<u>\$ 123,047</u>	<u>\$ 17</u>	<u>\$ 14,783</u>	<u>\$ 1,475,323</u>	<u>\$ 65,153</u>

**City of Kelso**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the fiscal year ended December 31, 2011**

	Total Non-Major Special Revenue Funds	Capital Projects City Hall Fund	Total Non-Major Governmental Funds
<b>Revenues</b>			
Taxes	\$ 133,521	\$ 60,715	\$ 194,236
Intergovernmental	406,031	-	406,031
Charges for services	26,094	-	26,094
Investment earnings	2,677	1	2,678
Miscellaneous	12,593	-	12,593
Total revenues	<u>580,916</u>	<u>60,716</u>	<u>641,632</u>
<b>Expenditures</b>			
Security of persons and property	393,593	-	393,593
Economic Environment	111,661	-	111,661
Culture and recreation	164,861	-	164,861
Debt service:			
Interest and fiscal charges	276	-	276
Total expenditures	<u>670,391</u>	<u>-</u>	<u>670,391</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(89,475)</u>	<u>60,716</u>	<u>(28,759)</u>
<b>Other financing sources (uses)</b>			
Transfers in	21,248	-	21,248
Transfers out	(20,000)	(30,000)	(50,000)
Total other financing sources (uses)	<u>1,248</u>	<u>(30,000)</u>	<u>(28,752)</u>
Net change in fund balances	(88,227)	30,716	(57,511)
Fund balances - beginning	1,802,527	5,258	1,807,785
Fund balances - ending	<u>\$ 1,714,300</u>	<u>\$ 35,974</u>	<u>\$ 1,750,274</u>

**City of Kelso**  
**G.O. Bond Debt Service Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**For the fiscal year ended December 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>With Final</u>
				<u>Budget</u>
<b>Revenues</b>				
Investment earnings	\$ 45,052	\$ 45,052	\$ 38,144	\$ (6,908)
Total revenues	<u>45,052</u>	<u>45,052</u>	<u>38,144</u>	<u>(6,908)</u>
<b>Expenditures</b>				
Debt service:				
Principal	110,000	110,000	110,000	-
Interest	113,880	200,080	177,567	22,513
Total expenditures	<u>223,880</u>	<u>310,080</u>	<u>287,567</u>	<u>22,513</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(178,828)</u>	<u>(265,028)</u>	<u>(249,423)</u>	<u>15,605</u>
<b>Other financing sources (uses)</b>				
Transfers in/(out)	178,828	178,828	178,828	-
Refunding bonds issued	-	2,746,200	2,710,000	(36,200)
Payment to refunded bond escrow agent	-	(2,660,000)	(2,660,000)	-
Total other financing sources (uses)	<u>178,828</u>	<u>265,028</u>	<u>228,828</u>	<u>(36,200)</u>
Net change in fund balances	-	-	(20,595)	(20,595)
Fund balances - beginning	1,596,961	1,596,961	1,596,961	-
Fund balances - ending	<u>\$1,596,961</u>	<u>\$1,596,961</u>	<u>\$1,576,366</u>	<u>\$ (20,595)</u>

**City of Kelso**  
**Street Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**For the Year Ended December 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 351,181	\$ 351,181	\$ 351,181	\$ -
Intergovernmental	185,000	185,000	182,255	(2,745)
Investment earnings	500	500	422	(78)
Rental/lease income	19,959	19,959	19,909	(50)
Miscellaneous	-	-	264	264
Total revenues	<u>556,640</u>	<u>556,640</u>	<u>554,031</u>	<u>(2,609)</u>
<b>Expenditures</b>				
Transportation	494,740	494,740	447,804	46,936
Capital outlay	61,000	61,000	58,387	2,613
Total expenditures	<u>555,740</u>	<u>555,740</u>	<u>506,191</u>	<u>49,549</u>
Excess (deficiency) of revenues over (under) expenditures	<u>900</u>	<u>900</u>	<u>47,840</u>	<u>46,940</u>
<b>Other financing sources (uses)</b>				
Transfers out	<u>(900)</u>	<u>(900)</u>	<u>(911)</u>	<u>(11)</u>
Total other financing sources (uses)	<u>(900)</u>	<u>(900)</u>	<u>(911)</u>	<u>(11)</u>
Net change in fund balances	<u>-</u>	<u>-</u>	<u>46,929</u>	<u>46,929</u>
Fund balances - beginning	224,091	224,091	224,091	-
Fund balances - ending	<u>\$ 224,091</u>	<u>\$ 224,091</u>	<u>\$ 271,020</u>	<u>\$ 46,929</u>

**City of Kelso**  
**Library Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**For the Year Ended December 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 389,354	\$ 389,354	\$ 389,354	\$ -
Charges for services	4,750	4,750	8,500	3,750
Fines	4,500	4,500	4,888	388
Investment earnings	-	-	81	81
Miscellaneous	170	170	56	(114)
Total revenues	<u>398,774</u>	<u>398,774</u>	<u>402,879</u>	<u>4,105</u>
<b>Expenditures</b>				
Culture and recreation	363,774	388,274	386,065	2,209
Capital outlay	35,000	35,000	18,084	16,916
Total expenditures	<u>398,774</u>	<u>423,274</u>	<u>404,149</u>	<u>19,125</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>(24,500)</u>	<u>(1,270)</u>	<u>23,230</u>
Net change in fund balances	-	(24,500)	(1,270)	23,230
 Fund balances - beginning	 47,712	 47,712	 47,712	 -
Fund balances - ending	<u>\$ 47,712</u>	<u>\$ 23,212</u>	<u>\$ 46,442</u>	<u>\$ 23,230</u>

**City of Kelso**  
**Kelso Station Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**For the Year Ended December 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>With Final</u>
				<u>Budget</u>
<b>Revenues</b>				
Investment earnings	\$ -	\$ -	\$ 15	\$ 15
Rental/lease income	16,500	16,500	17,370	870
Miscellaneous	100	100	-	(100)
Total revenues	<u>16,600</u>	<u>16,600</u>	<u>17,385</u>	<u>785</u>
<b>Expenditures</b>				
Transportation	<u>44,900</u>	<u>47,400</u>	<u>47,030</u>	<u>370</u>
Total expenditures	<u>44,900</u>	<u>47,400</u>	<u>47,030</u>	<u>370</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(28,300)</u>	<u>(30,800)</u>	<u>(29,645)</u>	<u>1,155</u>
<b>Other financing sources (uses)</b>				
Transfers in	<u>43,300</u>	<u>43,300</u>	<u>43,300</u>	<u>-</u>
Total other financing sources (uses)	<u>43,300</u>	<u>43,300</u>	<u>43,300</u>	<u>-</u>
Net change in fund balances	<u>15,000</u>	<u>12,500</u>	<u>13,655</u>	<u>1,155</u>
Fund balances - beginning	<u>15,426</u>	<u>15,426</u>	<u>15,426</u>	<u>-</u>
Fund balances - ending	<u>\$ 30,426</u>	<u>\$ 27,926</u>	<u>\$ 29,081</u>	<u>\$ 1,155</u>

**City of Kelso**  
**Parks and Recreation Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**For the Year Ended December 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 184,573	\$ 184,573	\$ 184,573	\$ -
Intergovernmental	-	-	7,936	7,936
Charges for services	4,000	4,000	3,775	(225)
Investment earnings	100	100	46	(54)
Rental/lease income	29,400	29,400	24,121	(5,279)
Miscellaneous	9,800	9,800	12,586	2,786
Total revenues	<u>227,873</u>	<u>227,873</u>	<u>233,037</u>	<u>5,164</u>
<b>Expenditures</b>				
Culture and recreation	227,873	227,873	222,919	4,954
Total expenditures	<u>227,873</u>	<u>227,873</u>	<u>222,919</u>	<u>4,954</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>10,118</u>	<u>10,118</u>
Fund balances - beginning	<u>23,263</u>	<u>23,263</u>	<u>23,263</u>	<u>-</u>
Fund balances - ending	<u>\$ 23,263</u>	<u>\$ 23,263</u>	<u>\$ 33,381</u>	<u>\$ 10,118</u>

**City of Kelso**  
**Façade Improvement Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**For the Year Ended December 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>With Final</u>
				<u>Budget</u>
<b>Revenues</b>				
Investment earnings	\$ -	\$ -	\$ -	\$ -
Total revenues	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures	-	-	-	-
Fund balances - beginning	443	443	443	-
Fund balances - ending	<u>\$ 443</u>	<u>\$ 443</u>	<u>\$ 443</u>	<u>\$ -</u>

**City of Kelso**  
**Paths and Trails Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**For the Year Ended December 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Investment earnings	\$ 50	\$ 50	\$ 47	\$ (3)
Total revenues	<u>50</u>	<u>50</u>	<u>47</u>	<u>(3)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>50</u>	<u>50</u>	<u>47</u>	<u>(3)</u>
<b>Other financing sources (uses)</b>				
Transfers in	1,250	1,250	1,248	(2)
Transfers out	(33,000)	(33,000)	-	33,000
Total other financing sources (uses)	<u>(31,750)</u>	<u>(31,750)</u>	<u>1,248</u>	<u>32,998</u>
Net change in fund balances	<u>(31,700)</u>	<u>(31,700)</u>	<u>1,295</u>	<u>32,995</u>
Fund balances - beginning	34,682	34,682	34,682	-
Fund balances - ending	<u>\$ 2,982</u>	<u>\$ 2,982</u>	<u>\$ 35,977</u>	<u>\$ 32,995</u>

**City of Kelso**  
**Stadium Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**For the Year Ended December 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 135,000	\$ 135,000	\$ 133,521	\$ (1,479)
Investment earnings	450	450	466	16
Miscellaneous	100	100	46	(54)
Total revenues	<u>135,550</u>	<u>135,550</u>	<u>134,033</u>	<u>(1,517)</u>
<b>Expenditures</b>				
Culture and recreation	100,350	186,350	106,083	80,267
Debt service:				
Principal	55,000	55,000	-	55,000
Interest and fiscal charges	1,500	1,500	276	1,224
Total expenditures	<u>156,850</u>	<u>242,850</u>	<u>106,359</u>	<u>136,491</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(21,300)</u>	<u>(107,300)</u>	<u>27,674</u>	<u>134,974</u>
<b>Other financing sources (uses)</b>				
Transfers out	(20,000)	(20,000)	(20,000)	-
Total other financing sources (uses)	<u>(20,000)</u>	<u>(20,000)</u>	<u>(20,000)</u>	<u>-</u>
Net change in fund balances	<u>(41,300)</u>	<u>(127,300)</u>	<u>7,674</u>	<u>134,974</u>
Fund balances - beginning	115,373	115,373	115,373	-
Fund balances - ending	<u>\$ 74,073</u>	<u>\$ (11,927)</u>	<u>\$ 123,047</u>	<u>\$ 134,974</u>

**City of Kelso**  
**Highlander Festival Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**For the Year Ended December 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>With Final</u>
				<u>Budget</u>
<b>Revenues</b>				
Charges for services	\$ 32,700	\$ 32,700	\$ 26,094	\$ (6,606)
Miscellaneous	11,400	11,400	12,304	904
Total revenues	<u>44,100</u>	<u>44,100</u>	<u>38,398</u>	<u>(5,702)</u>
<b>Expenditures</b>				
Culture and recreation	64,100	64,100	58,778	5,322
Total expenditures	<u>64,100</u>	<u>64,100</u>	<u>58,778</u>	<u>5,322</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(20,000)</u>	<u>(20,000)</u>	<u>(20,380)</u>	<u>(380)</u>
<b>Other financing sources (uses)</b>				
Transfers in	20,000	20,000	20,000	-
Total other financing sources (uses)	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>	<u>-</u>
Net change in fund balances	-	-	(380)	(380)
Fund balances - beginning	397	397	397	-
Fund balances - ending	<u>\$ 397</u>	<u>\$ 397</u>	<u>\$ 17</u>	<u>\$ (380)</u>

**City of Kelso**  
**Tam O'Shanter Park Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**For the Year Ended December 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Investment earnings	\$ 45	\$ 45	\$ 24	\$ (21)
Total revenues	<u>45</u>	<u>45</u>	<u>24</u>	<u>(21)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>45</u>	<u>45</u>	<u>24</u>	<u>(21)</u>
Net change in fund balances	<u>45</u>	<u>45</u>	<u>24</u>	<u>(21)</u>
Fund balances - beginning	<u>14,759</u>	<u>14,759</u>	<u>14,759</u>	<u>-</u>
Fund balances - ending	<u>\$ 14,804</u>	<u>\$ 14,804</u>	<u>\$ 14,783</u>	<u>\$ (21)</u>

**City of Kelso**  
**HUD Block Grant Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**For the Year Ended December 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>With Final</u>
				<u>Budget</u>
<b>Revenues</b>				
Intergovernmental	\$ 514,472	\$ 514,472	\$ -	\$ (514,472)
Investment earnings	13,500	13,500	2,123	(11,377)
Miscellaneous	20,500	20,500	-	(20,500)
Total revenues	<u>548,472</u>	<u>548,472</u>	<u>2,123</u>	<u>(546,349)</u>
<b>Expenditures</b>				
Economic Environment:				
Neighborhood stabilization	514,472	514,472	98,262	416,210
Housing rehabilitation	112,100	112,100	13,399	98,701
Total expenditures	<u>626,572</u>	<u>626,572</u>	<u>111,661</u>	<u>514,911</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(78,100)</u>	<u>(78,100)</u>	<u>(109,538)</u>	<u>(31,438)</u>
<b>Other financing sources (uses)</b>				
Transfers out	<u>(65,000)</u>	<u>(65,000)</u>	<u>-</u>	<u>65,000</u>
Total other financing sources (uses)	<u>(65,000)</u>	<u>(65,000)</u>	<u>-</u>	<u>65,000</u>
Net change in fund balances	<u>(143,100)</u>	<u>(143,100)</u>	<u>(109,538)</u>	<u>33,562</u>
Fund balances - beginning	<u>1,584,861</u>	<u>1,584,861</u>	<u>1,584,861</u>	<u>-</u>
Fund balances - ending	<u>\$ 1,441,761</u>	<u>\$ 1,441,761</u>	<u>\$ 1,475,323</u>	<u>\$ 33,562</u>

**City of Kelso**  
**Criminal Justice Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**For the Year Ended December 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental	\$ 440,182	\$ 440,182	\$ 406,031	\$ (34,151)
Investment earnings	1,000	1,000	17	(983)
Miscellaneous	2,500	2,500	243	(2,257)
Total revenues	<u>443,682</u>	<u>443,682</u>	<u>406,291</u>	<u>(37,391)</u>
<b>Expenditures</b>				
Security of persons and property	<u>437,382</u>	<u>437,382</u>	<u>393,593</u>	<u>43,789</u>
Total expenditures	<u>437,382</u>	<u>437,382</u>	<u>393,593</u>	<u>43,789</u>
Excess (deficiency) of revenues over (under) expenditures	<u>6,300</u>	<u>6,300</u>	<u>12,698</u>	<u>6,398</u>
Net change in fund balances	<u>6,300</u>	<u>6,300</u>	<u>12,698</u>	<u>6,398</u>
Fund balances - beginning	<u>52,455</u>	<u>52,455</u>	<u>52,455</u>	<u>-</u>
Fund balances - ending	<u>\$ 58,755</u>	<u>\$ 58,755</u>	<u>\$ 65,153</u>	<u>\$ 6,398</u>

**City of Kelso**  
**City Hall Capital Projects Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**For the Year Ended December 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 30,000	\$ 30,000	\$ 60,715	\$ 30,715
Investment earnings	-	-	1	1
Total revenues	<u>30,000</u>	<u>30,000</u>	<u>60,716</u>	<u>30,716</u>
Excess (deficiency) of revenues over (under) expenditures	<u>30,000</u>	<u>30,000</u>	<u>60,716</u>	<u>30,716</u>
<b>Other financing sources (uses)</b>				
Transfers out	<u>(30,000)</u>	<u>(30,000)</u>	<u>(30,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(30,000)</u>	<u>(30,000)</u>	<u>(30,000)</u>	<u>-</u>
Net change in fund balances	-	-	30,716	30,716
Fund balances - beginning	<u>5,258</u>	<u>5,258</u>	<u>5,258</u>	<u>-</u>
Fund balances - ending	<u>\$ 5,258</u>	<u>\$ 5,258</u>	<u>\$ 35,974</u>	<u>\$ 30,716</u>

# STATISTICAL SECTION

This part of the City of Kelso's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

<b>Contents</b>	<b>Page</b>
Financial Trends	103
<i>These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.</i>	
Revenue Capacity	110
<i>These schedules contain trend information to help the reader assess one of the City's most significant local revenue sources, the property tax.</i>	
Debt Capacity	116
<i>These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.</i>	
Demographic and Economic	121
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place</i>	
Operating Information	124
<i>These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.</i>	

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

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City of Kelso  
Net Assets by Component  
Last Ten Fiscal Years  
(accrual basis of accounting)  
(amounts expressed in thousands)

	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
Governmental activities									
Invested in capital assets, net of related debt	\$ 18,960	\$ 22,768	\$ 23,450	\$ 27,053	\$ 47,636	\$ 47,405	\$ 47,642	\$ 48,034	\$ 47,753
Restricted	2,523	684	1,196	1,169	1,181	1,015	845	1,302	884
Unrestricted	4,771	3,306	3,060	3,067	4,231	4,480	4,021	2,801	3,401
Total governmental activities net assets	<u>\$ 26,254</u>	<u>\$ 26,758</u>	<u>\$ 27,706</u>	<u>\$ 31,289</u>	<u>\$ 53,048</u>	<u>\$ 52,900</u>	<u>\$ 52,508</u>	<u>\$ 52,137</u>	<u>\$ 52,038</u>
Business-type activities									
Invested in capital assets, net of related debt	\$ 16,509	\$ 16,929	\$ 18,238	\$ 18,750	\$ 19,488	\$ 19,499	\$ 20,013	\$ 20,893	\$ 20,809
Restricted	486	492	508	534	563	201	202	591	592
Unrestricted	3,903	3,688	3,483	3,698	4,402	5,787	5,747	5,119	6,216
Total business-type activities net assets	<u>\$ 20,898</u>	<u>\$ 21,109</u>	<u>\$ 22,229</u>	<u>\$ 22,982</u>	<u>\$ 24,453</u>	<u>\$ 25,487</u>	<u>\$ 25,962</u>	<u>\$ 26,603</u>	<u>\$ 27,617</u>
Primary government									
Invested in capital assets, net of related debt	\$ 35,469	\$ 39,697	\$ 41,688	\$ 45,803	\$ 67,124	\$ 66,904	\$ 67,655	\$ 68,927	\$ 68,562
Restricted	3,009	1,176	1,704	1,703	1,744	1,216	1,047	1,893	1,476
Unrestricted	8,674	6,994	6,543	6,765	8,633	10,267	9,768	7,920	9,617
Total primary government net assets	<u>\$ 47,152</u>	<u>\$ 47,867</u>	<u>\$ 49,935</u>	<u>\$ 54,271</u>	<u>\$ 77,501</u>	<u>\$ 78,387</u>	<u>\$ 78,470</u>	<u>\$ 78,740</u>	<u>\$ 79,655</u>

The City converted to GASB 34 in 2003, historical data prior to 2003 is not available.

City of Kelso  
Changes in Net Assets  
Last Ten Fiscal Years  
(accrual basis of accounting)  
(amounts expressed in thousands)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	
<b>Expenses</b>										
Governmental activities:										
General government	\$ 1,087	\$ 1,383	\$ 1,368	\$ 1,512	\$ 1,645	\$ 1,560	\$ 1,503	\$ 1,501	\$ 1,453	
Security of persons and property	3,612	3,829	3,887	4,136	4,388	4,808	4,939	5,031	4,543	
Physical environment	356	301	266	321	603	598	430	441	422	
Transportation	780	703	850	835	1,652	1,695	1,747	1,783	1,703	
Economic environment	326	297	354	365	849	493	442	695	396	
Culture and recreation	864	975	710	921	1,095	1,192	993	1,091	1,054	
Interest on long-term debt	122	155	150	143	137	136	135	140	173	
Total governmental activities expenses	<u>7,147</u>	<u>7,643</u>	<u>7,585</u>	<u>8,233</u>	<u>10,369</u>	<u>10,482</u>	<u>10,189</u>	<u>10,682</u>	<u>9,744</u>	
Business-type activities:										
Water/Sewer	4,700	5,285	4,842	5,753	6,045	5,912	6,889	6,634	6,578	
Solid waste	244	1,079	1,059	1,085	1,099	1,087	1,091	1,247	1,235	
Storm water	1,092	258	243	283	295	417	464	456	580	
Airport	251	211	218	290	224	348	423	357	380	
Total business-type activities expenses	<u>6,287</u>	<u>6,833</u>	<u>6,362</u>	<u>7,411</u>	<u>7,663</u>	<u>7,764</u>	<u>8,867</u>	<u>8,694</u>	<u>8,773</u>	
Total primary government expenses	<u>\$ 13,434</u>	<u>\$ 14,476</u>	<u>\$ 13,947</u>	<u>\$ 15,644</u>	<u>\$ 18,032</u>	<u>\$ 18,246</u>	<u>\$ 19,056</u>	<u>\$ 19,376</u>	<u>\$ 18,517</u>	
<b>Program Revenues</b>										
Governmental activities:										
Charges for services:										
General government	\$ 66	\$ 76	\$ 82	\$ 85	\$ 82	\$ 63	\$ 60	\$ 62	\$ 97	
Security of persons and property	150	124	185	212	170	213	370	185	233	
Physical environment	5	4	4	8	49	70	13	48	11	
Transportation	70	63	67	52	34	119	75	191	210	
Economic environment	362	196	205	262	263	224	119	119	127	
Culture and recreation	47	36	35	63	56	71	56	76	104	
Operating grants and contributions	418	343	444	588	908	492	585	691	624	
Capital grants and contributions	482	279	298	2,958	113	596	1,262	867	822	
Total governmental activities program revenues	<u>1,600</u>	<u>1,121</u>	<u>1,320</u>	<u>4,228</u>	<u>1,675</u>	<u>1,848</u>	<u>2,540</u>	<u>2,239</u>	<u>2,228</u>	
Business-type activities:										
Charges for services:										
Water/Sewer	5,288	5,262	5,389	5,804	6,425	6,781	7,182	7,320	7,635	
Solid waste	1,073	1,095	1,105	1,115	1,110	1,174	1,110	1,131	1,142	
Storm water	267	253	255	249	254	267	446	559	623	
Airport	107	103	106	109	109	118	125	131	138	
Operating grants and contributions	67	58	66	112	72	227	256	129	238	
Capital grants and contributions	143	247	550	610	849	75	163	10	-	
Total business-type activities program revenues	<u>6,945</u>	<u>7,018</u>	<u>7,471</u>	<u>7,999</u>	<u>8,819</u>	<u>8,642</u>	<u>9,280</u>	<u>9,280</u>	<u>9,776</u>	
Total primary government program revenues	<u>\$ 8,545</u>	<u>\$ 8,139</u>	<u>\$ 8,791</u>	<u>\$ 12,227</u>	<u>\$ 10,494</u>	<u>\$ 10,490</u>	<u>\$ 11,822</u>	<u>\$ 11,519</u>	<u>\$ 12,004</u>	

	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
Net (expense)/revenue									
Governmental activities	\$ (5,547)	\$ (6,522)	\$ (6,265)	\$ (4,005)	\$ (8,694)	\$ (8,634)	\$ (7,649)	\$ (8,443)	\$ (7,516)
Business-type activities	658	185	1,109	588	1,156	878	415	586	1,003
Total primary government net expense	<u>\$ (4,889)</u>	<u>\$ (6,337)</u>	<u>\$ (5,156)</u>	<u>\$ (3,417)</u>	<u>\$ (7,538)</u>	<u>\$ (7,756)</u>	<u>\$ (7,234)</u>	<u>\$ (7,857)</u>	<u>\$ (6,513)</u>
General Revenues and other Changes in									
Net Assets									
Governmental activities:									
Taxes									
Property taxes	\$ 1,062	\$ 1,068	\$ 1,078	\$ 1,081	\$ 1,018	\$ 1,007	\$ 1,146	\$ 1,139	\$ 1,159
Sales taxes	2,198	1,890	2,080	2,281	2,439	2,343	2,014	2,150	2,154
Utility taxes	2,181	2,117	2,120	2,323	2,426	2,487	2,534	2,542	2,611
Business taxes	609	669	648	679	716	722	659	671	713
Excise taxes	360	376	446	427	387	215	156	117	111
Penalties & interest	3	7	9	7	5	5	5	5	4
State entitlements	526	540	582	549	597	635	638	640	572
Investment earnings	84	98	143	212	286	177	65	50	68
Miscellaneous	54	226	35	5	67	29	60	12	21
Gain/(loss) on sale of capital assets	1	-	-	46	716	885	-	-	-
Transfers	(19)	35	72	(22)	(111)	(19)	(20)	(20)	4
Total governmental activities	<u>7,059</u>	<u>7,026</u>	<u>7,213</u>	<u>7,588</u>	<u>8,546</u>	<u>8,486</u>	<u>7,257</u>	<u>7,306</u>	<u>7,417</u>
Business-type activities:									
Investment earnings	51	56	112	165	203	137	39	15	15
Miscellaneous	-	-	-	-	-	-	-	20	-
Gain/(loss) on sale of capital assets	(35)	5	(29)	(21)	-	1	-	-	-
Transfers	19	(35)	(72)	22	111	19	20	20	(4)
Total business-type activities	<u>35</u>	<u>26</u>	<u>11</u>	<u>166</u>	<u>314</u>	<u>157</u>	<u>59</u>	<u>55</u>	<u>11</u>
Total primary government	<u>\$ 7,094</u>	<u>\$ 7,052</u>	<u>\$ 7,224</u>	<u>\$ 7,754</u>	<u>\$ 8,860</u>	<u>\$ 8,643</u>	<u>\$ 7,316</u>	<u>\$ 7,361</u>	<u>\$ 7,428</u>
Change in Net Assets									
Governmental activities	\$ 1,512	\$ 504	\$ 948	\$ 3,583	\$ (148)	\$ (148)	\$ (392)	\$ (1,137)	\$ (99)
Business-type activities	693	211	1,120	754	1,470	1,035	474	641	1,014
Total primary government	<u>\$ 2,205</u>	<u>\$ 715</u>	<u>\$ 2,068</u>	<u>\$ 4,337</u>	<u>\$ 1,322</u>	<u>\$ 887</u>	<u>\$ 82</u>	<u>\$ (496)</u>	<u>\$ 915</u>

The City converted to GASB 34 in 2003, historical data prior to 2003 is not available.

**City of Kelso**  
**Governmental Activities Tax Revenues by Source**  
**Last Ten Fiscal Years**  
**(accrual basis of accounting)**  
**(amounts expressed in thousands)**

<b>Fiscal Year</b>	<b>Property Tax</b>	<b>Sales Tax</b>	<b>Utility Taxes</b>	<b>Business Taxes</b>	<b>Excise Taxes</b>
2003	\$ 1,062	\$ 2,198	\$ 2,181	\$ 609	\$ 360
2004	1,068	1,890	2,117	669	375
2005	1,078	2,080	2,120	648	446
2006	1,081	2,281	2,323	679	427
2007	1,018	2,439	2,426	716	387
2008	1,007	2,343	2,487	722	214
2009	1,146	2,014	2,534	659	156
2010	1,139	2,150	2,542	671	117
2011	1,159	2,154	2,611	713	111

The City converted to GASB 34 in 2003, historical data prior to 2003 is not available.

City of Kelso  
Fund Balances of Governmental Funds  
Last Ten Fiscal Years  
(modified accrual basis of accounting)  
(amounts expressed in thousands)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General fund (Per GASB 54)*										
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 55
Restricted	-	-	-	-	-	-	-	-	-	54
Committed	-	-	-	-	-	-	-	-	-	178
Assigned	-	-	-	-	-	-	-	-	-	202
Unassigned	-	-	-	-	-	-	-	-	-	1,197
General fund (Prior to GASB 54)*										
Reserved	57	-	26	140	185	51	243	200	155	-
Unreserved	1,631	2,563	1,762	1,684	1,528	3,175	3,587	1,491***	1,022	-
Total general fund	<u>\$ 1,688</u>	<u>\$ 2,563</u>	<u>\$ 1,788</u>	<u>\$ 1,824</u>	<u>\$ 1,713</u>	<u>\$ 3,226</u>	<u>\$ 3,830</u>	<u>\$ 1,691</u>	<u>\$ 1,177</u>	<u>\$ 1,686</u>
All other governmental funds (Per GASB 54)*										
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,418
Restricted	-	-	-	-	-	-	-	-	-	830
Committed	-	-	-	-	-	-	-	-	-	-
Assigned	-	-	-	-	-	-	-	-	-	1,078
Unassigned	-	-	-	-	-	-	-	-	-	(744)
All other governmental funds (Prior to GASB 54)*										
Reserved	373	2,579**	1,068	1,068	987	1,130	837	811	155	-
Unreserved, reported in:										
Special revenue funds	1,753	1,182	862	996	832	705	773	802	379****	-
Debt service funds	-	-	-	-	-	-	-	1,605***	1,597	-
Capital projects funds	752	692	-	-	-	-	-	-	-	-
Total all other governmental funds	<u>\$ 2,878</u>	<u>\$ 4,453</u>	<u>\$ 1,930</u>	<u>\$ 2,064</u>	<u>\$ 1,819</u>	<u>\$ 1,835</u>	<u>\$ 1,610</u>	<u>\$ 3,218</u>	<u>\$ 2,131</u>	<u>\$ 2,582</u>

\* In 2011 the City Adopted GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Amounts previously reported as reserved and unreserved are now reported as nonspendable, restricted, committed, assigned, or unassigned. Additionally, as required by GASB 54, the City reclassified certain funds within the governmental fund types for reporting purposes for fiscal year 2011.

\*\* The increase in fund balance in this period was due to unspent bond proceeds for construction of City Hall.

\*\*\* In 2009 city council designated certain proceeds from the sale of City property for the retirement of the 2003 G.O. Bond.

\*\*\*\* This decrease is due to accounting for an interfund loan (\$900) in the arterial street fund while the fixed assets constructed with the loan proceeds were not recorded.

City of Kelso  
Changes in Fund Balances of Governmental Funds  
Last Ten Fiscal Years  
(modified accrual basis of accounting)  
(amounts expressed in thousands)

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Revenues</b>										
Taxes	\$ 5,912	\$ 6,413	\$ 6,140	\$ 6,367	\$ 6,818	\$ 6,988	\$ 6,802	\$ 6,506	\$ 6,607	\$ 6,745
Licenses and permits	441	239	192	272	325	290	229	159	138	200
Intergovernmental	1,806	1,390	1,147	1,094	2,370	1,540	1,063	2,341	2,199	1,553
Charges for services	470	473	506	540	621	625	616	747	988	824
Fines	155	148	125	120	139	163	131	127	164	190
Investment earnings	120	111	94	132	192	282	165	61	49	69
Contributions	20	17	2	120	7	15	14	48	1	-
Rental/lease income	46	46	49	53	40	38	56	59	53	61
Miscellaneous	187	234	305	226	154	140	91	159	37	36
Total revenues	9,157	9,071	8,560	8,924	10,666	10,061	9,167	10,207	10,236	9,778
<b>Expenditures</b>										
General government	1,304	1,318	1,563	1,543	1,571	1,808	1,712	1,746	1,812	1,726
Security of persons and property	3,558	3,595	3,742	3,867	4,091	4,297	4,428	4,614	4,700	4,299
Physical environment	369	353	413	415	492	650	667	635	647	548
Transportation	699	692	628	766	676	701	734	657	605	495
Economic environment	763	325	295	352	372	839	491	441	709	398
Culture and recreation	800	814	876	651	697	764	844	717	758	774
Capital outlay	884	2,041	3,976	910	2,757	519	759	1,646	2,005	1,355
Debt service										
Principal	3,694	495	93	98	103	23	123	128	128	133
Interest	115	178	154	149	142	135	134	133	138	224
Total expenditures	12,186	9,811	11,740	8,751	10,901	9,736	9,892	10,717	11,502	9,952
Excess of revenues over (under) expenditures	(3,029)	(740)	(3,180)	173	(235)	325	(725)	(510)	(1,266)	(174)

Other financing sources (uses)										
Transfers in	171	117	1,234	557	243	279	675	2,019	258	489
Transfers out	(311)	(281)	(1,352)	(560)	(411)	(503)	(694)	(2,039)	(278)	(485)
Notes issued	49	-	-	-	-	-	-	-	-	-
Bonds issued	-	3,355	-	-	-	-	-	-	-	2,710
Bonds refunded	-	-	-	-	-	-	-	-	-	(2,660)
Sale of capital assets	78	-	-	-	46	1,427	1,123	-	-	-
Total other financing sources (uses)	(13)	3,191	(118)	(3)	(122)	1,203	1,104	(20)	(20)	54
Net change in fund balances	\$ (3,042)	\$ 2,451	\$ (3,298)	\$ 170	\$ (357)	\$ 1,528	\$ 379	\$ (530)	\$ (1,286)	\$ (120)
Debt service as a percentage of noncapital expenditures*	33.70%	8.66%	3.18%	3.15%	3.01%	1.71%	2.81%	2.88%	2.80%	4.15%

\* This ratio was calculated by dividing the debt service (principal and interest) by the non-capital expenditures.  
Non-capital expenditures were calculated by subtracting capital outlay from total expenditures.

City of Kelso General Governmental Tax Revenues by Source Last Ten Fiscal Years (modified accrual basis of accounting) (amounts expressed in thousands)						
Fiscal Year	Property Tax	Sales Tax	Utility Taxes	Business Taxes	Other Taxes	Total
2002	1,040	1,854	2,068	573	377	5,912
2003	1,062	2,198	2,181	609	363	6,413
2004	1,081	1,890	2,117	669	383	6,140
2005	1,064	2,080	2,120	648	455	6,367
2006	1,101	2,281	2,323	679	434	6,818
2007	1,015	2,439	2,426	716	392	6,988
2008	1,030	2,343	2,487	722	220	6,802
2009	1,138	2,014	2,534	659	161	6,506
2010	1,121	2,150	2,542	671	123	6,607
2011	1,152	2,154	2,611	713	115	6,745

**City of Kelso**  
**Assessed Value and Estimated Actual Value of Taxable Property**  
(amounts expressed in thousands)

<b>Fiscal Year</b>	<b>Real Property</b>		<b>Direct Tax Rate</b>	<b>Ratio of Assessed Value To Estimated Actual Value<sup>2</sup></b>
	<b>Assessed Value<sup>1</sup></b>	<b>Estimated Value</b>		
2002	511,880	536,000	2.2739%	95.5%
2003	510,829	553,444	2.2924%	92.3%
2004	518,895	568,964	2.2911%	91.2%
2005	561,334	628,594	2.1529%	89.3%
2006	564,395	672,700	2.1496%	83.9%
2007	606,625	770,807	1.9095%	78.7%
2008	648,929	775,303	1.8219%	83.7%
2009	727,939	830,033	1.8102%	87.7%
2010	728,204	812,728	1.7985%	89.6%
2011	753,399	817,136	1.7643%	92.2%

<sup>1</sup> Cowlitz County Assessor's Office

<sup>2</sup> Department of Revenue - Property Tax Division

Note - personal property information is not currently available.

City of Kelso  
Property Tax Rates  
Direct and Overlapping Governments  
(Per \$1,000 of Assessed Value)  
Last Ten Fiscal Years

Fiscal Year	City Regular	City Debt	Total City	School District	Port of Longview	Cowlitz County	State of Washington	Cowlitz 2 Fire District	Total
2002	2.1009	0.1730	2.2739	5.7762	0.4496	1.8000	2.9150	1.4991	14.7138
2003	2.1183	0.1741	2.2924	5.9823	0.4453	1.8000	2.7559	1.4807	14.7566
2004	2.1194	0.1717	2.2911	6.0672	0.4500	1.8000	2.8002	1.5000	14.9085
2005	1.9962	0.1567	2.1529	5.6800	0.4500	1.8715	2.7639	1.6595	14.5778
2006	2.0127	0.1369	2.1496	5.5473	0.4509	1.8714	2.5686	1.6551	14.2429
2007	1.9095	0	1.9095	5.2332	0.4503	1.7564	2.3887	1.5608	13.2989
2008	1.8219	0	1.8219	4.9324	0.4143	1.6756	2.2277	1.5000	12.5719
2009	1.8102	0	1.8102	4.3766	0.4037	1.6629	2.0593	1.4044	11.7171
2010	1.7985	0	1.7985	4.4339	0.3906	1.6904	2.1058	1.4643	11.8835
2011	1.7643	0	1.7643	5.1213	0.3933	1.7304	2.2954	1.5000	12.8047

Diking and Mosquito Districts are not included  
Source: Cowlitz County Assessor's Office

City of Kelso  
Principal Property Taxpayers  
December 31, 2011  
(amounts expressed in thousands)

Taxpayer	2011			2003		
	Rank	Assessed Valuation	Percentage of Total Assessed Valuation	Rank	Assessed Valuation	Percentage of Total Assessed Valuation
Foster Farms Poultry	1	\$ 32,702	4.40%	1	\$ 35,118	6.90%
Three Rivers Mall LLC	2	21,635	2.91%	2	25,850	5.10%
Mario Segale	3	14,664	1.97%			
Safeway Inc.	4	10,599	1.43%	4	5,515	1.10%
Burlington Northern Santa Fe	5	8,750	1.18%	5	5,454	1.10%
CAS Holdings Inc.	6	7,660	1.03%			
SW Paper Inc.	7	7,642	1.03%	3	8,406	1.70%
Storedahl Enterprises LLC	8	7,533	1.01%			
Dayton Hudson	9	7,415	1.00%	6	5,412	1.10%
Comcast	10	7,251	0.98%			
Brookhollow partners LP				7	4,700	0.90%
Riverway Plaza				8	4,078	0.80%
Kelso Elks 1482				9	3,220	0.60%
A I Longview LLC				10	3,072	0.60%
		<u>\$ 125,851</u>	<u>16.94%</u>		<u>\$ 100,825</u>	<u>19.90%</u>

Source: Cowlitz County Assessor's Office

The City converted to GASB 34 in 2003, historical data prior to 2003 is not available.

City of Kelso  
Ten Principal Sales Taxpayers  
December 31, 2011

Taxpayer*	2011			2002		
	Rank	Sales Tax	Percentage of Total Sales Tax	Rank	Sales Tax	Percentage of Total Sales Tax
Company A	1	\$ 208,584	10.86%	1	\$ 192,908	10.72%
Company B	2	116,913	6.09%	2	139,976	7.77%
Company C	3	105,786	5.51%			
Company D	4	71,464	3.72%	6	51,351	2.85%
Company E	5	68,373	3.56%	4	88,158	4.90%
Company F	6	64,771	3.37%	5	61,491	3.42%
Company G	7	49,423	2.57%	3	97,126	5.39%
Company H	8	42,700	2.22%	7	45,451	2.52%
Company I	9	41,895	2.18%	9	42,916	2.38%
Company J	10	38,690	2.01%			
Company K				8	43,353	2.41%
Company L				10	35,654	1.98%
		<u>\$ 808,599</u>	<u>42.09%</u>		<u>\$ 798,384</u>	<u>44.35%</u>

Source: Washington State Department of Revenue

\* Washington State law precludes the City from disclosing certain taxpayer information.

**City of Kelso  
Principal Utility Taxpayers  
December 31, 2011**

Utility Tax Type	2011			2003		
	Rank	Tax	Percentage of Tax to Total	Rank	Tax	Percentage of Tax to Total
Electricity*	1	\$ 595,851	22.82%	1	\$ 492,880	22.60%
Sewer*	2	367,901	14.09%	2	268,215	12.30%
Water*	3	225,787	8.65%	5	157,554	7.22%
Cell Phone**	4	190,852	7.31%	4	168,594	7.73%
Telephone**	5	114,391	4.38%	3	181,432	8.32%
Cable Television*	6	113,836	4.36%	8	62,791	2.88%
Garbage*	7	90,454	3.46%	7	89,389	4.10%
Natural Gas*	8	71,479	2.74%	6	94,369	4.33%
		<u>1,770,551</u>	<u>67.82%</u>		<u>1,515,224</u>	<u>69.47%</u>

\* Taxes paid by single utility provider

\*\*Taxes paid by multiple providers

Note: Info not available prior to 2003

Source: City of Kelso

City of Kelso  
Property Tax Levies and Collections  
Last Ten Fiscal Years

Fiscal Year	Total Tax Levy	Current Tax Collections	Percent of Current Taxes Collected	Collections in Subsequent Years	Total Tax Collections	Ratio of Total Tax Collections to Total Tax Levy	Outstanding Delinquent Taxes	Ratio of Delinquent Taxes to Total Tax Levy
2002	1,075,408	1,011,625	94.1%	63,783	1,075,408	100.0%	-	0.0%
2003	1,082,067	1,023,276	94.6%	57,511	1,080,787	99.9%	1,280	0.1%
2004	1,100,591	1,045,442	95.0%	55,142	1,100,584	100.0%	7	0.0%
2005	1,120,558	1,057,770	94.4%	62,788	1,120,558	100.0%	-	0.0%
2006	1,135,972	1,078,134	94.9%	57,139	1,135,273	99.9%	699	0.1%
2007	1,158,144	1,098,560	94.9%	59,172	1,157,732	100.0%	412	0.0%
2008	1,182,285	1,136,819	96.2%	43,912	1,180,731	99.9%	1,552	0.1%
2009	1,316,848	1,254,188	95.2%	47,776	1,301,964	98.9%	14,225	1.1%
2010	1,309,655	1,242,802	94.9%	35,860	1,278,662	97.6%	30,992	2.4%
2011	1,329,252	1,262,544	95.0%	-	1,262,544	95.0%	66,852	5.0%

Basis for property tax rates is per \$1,000 of assessed valuation  
Source: Cowitz County Assessor's Office

City of Kelso  
Ratios of Outstanding Debt by Type  
Last Ten Fiscal Years  
(amounts expressed in thousands, except per capita amount)

Fiscal Year	Governmental Activities			Business-Type Activities			Total Primary Government	Percentage of Personal Income <sub>1</sub>	Per Capita <sub>2</sub>
	General	Miscellaneous	Capital	Water/Sewer	Miscellaneous				
	Obligation Bonds	Notes	Leases	Revenue Bonds	Notes				
2002	290	563	-	2,020	3,827	6,700	2.24%	569	
2003	3,305	409	-	1,875	3,839	9,428	3.12%	797	
2004	3,235	386	-	1,720	3,547	8,888	2.90%	753	
2005	3,160	363	-	1,565	3,273	8,361	2.64%	707	
2006	3,080	341	-	1,400	2,997	7,818	2.38%	660	
2007	3,080	318	-	1,230	2,735	7,363	2.12%	622	
2008	2,980	295	-	915	2,524	6,714	1.90%	564	
2009	2,875	273	-	840	2,322	6,310	1.73%	533	
2010	2,770	250	-	5,235*	2,119	5,139	1.35%	436	
2011	2,710	227	-	5,050	1,916	9,903	N/A	N/A	

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

N/A - Information not available.

<sup>1</sup> Personal income was calculated by multiplying the County's per capita income by the City's population.

<sup>2</sup> See the schedule of Demographic and Economic Statistics on page 121 for personal income and population data.

\*City issued \$4,475 in revenue bonds in 2010.

**City of Kelso**  
**Ratio of General Bonded Debt Outstanding**  
**Last Ten Fiscal Years**

<b>Fiscal Year</b>	<b>Assessed Value*<sub>1</sub></b>	<b>General Obligation Bonds</b>	<b>Less: Amounts Available in Debt Service Fund**</b>	<b>Total</b>	<b>Percentage of Estimated Actual Taxable Value of Property<sub>2</sub></b>	<b>Per Capita<sub>3</sub></b>
2002	511,880	290,000	184	289,816	0.05%	25
2003	510,829	3,305,000	2,046	3,302,954	0.60%	279
2004	518,895	3,235,000	2,634	3,232,366	0.57%	274
2005	561,334	3,160,000	12,664	3,147,336	0.50%	266
2006	564,395	3,080,000	1,695	3,078,305	0.46%	260
2007	606,625	3,080,000	1,512	3,078,488	0.40%	260
2008	648,929	2,980,000	2,367	2,977,633	0.38%	250
2009	727,939	2,875,000	1,604,934	1,270,066	0.15%	107
2010	728,204	2,770,000	724,469	2,045,531	0.25%	174
2011	753,399	2,710,000	817,351	1,892,649	0.23%	159

\*Amounts expressed in thousands

\*\*In 2009, City Council designated \$1,776,000 for future debt service of 2003 G.O. Bond.

<sub>1</sub>Cowlitz County Assessor's Office

<sub>1</sub>See the Schedule of Assessed Value and Estimated Actual Value of Taxable Property on Page 110 for property value data

<sub>3</sub>Population data can be found in the Schedule of Demographic and Economic Statistics on page 121.

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

**City of Kelso**  
**Direct and Overlapping Governmental Activities Debt**  
**December 31, 2011**

<u>Jurisdiction</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable<sup>1</sup></u>	<u>Estimated Share of Overlapping Debt</u>
Direct:			
City of Kelso	<u>\$ 2,710,000</u>	100%	<u>\$ 2,710,000</u>
Overlapping:			
Cowlitz County	16,166,250	8%	1,293,300
Kelso School District	35,507,701	41%	14,558,157
Port of Longview	14,306,324	10%	1,430,632
Cowlitz Fire District #2	<u>64,752</u>	32%	<u>20,721</u>
Subtotal, overlapping debt	66,045,027		17,302,810
Total direct and overlapping	<u><u>\$ 68,755,027</u></u>		<u><u>\$ 20,012,810</u></u>

Source: Cowlitz County Assessor's Office

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Kelso. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

<sup>1</sup> The percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the jurisdiction's taxable value that is within the City's boundaries and dividing it by the jurisdiction's total taxable assessed value.

City of Kelso  
Legal Debt Margin Information  
Last Ten Fiscal Years  
(amounts expressed in thousands)

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Debt limit	\$ 38,312	\$ 38,917	\$ 42,100	\$ 42,330	\$ 45,497	\$ 48,670	\$ 54,595	\$ 54,615	\$ 56,505	\$ 55,744
Total net debt applicable to limit	517	3,523	3,221	3,145	3,079	3,079	2,978	1,270	2,046	1,893
Legal debt margin	\$ 37,795	\$ 35,394	\$ 38,879	\$ 39,185	\$ 42,418	\$ 45,591	\$ 51,617	\$ 53,345	\$ 54,459	\$ 53,851
Total net debt applicable to the limit as a percentage of debt limit	1.35%	9.05%	7.65%	7.43%	6.77%	6.33%	5.45%	2.33%	3.62%	3.40%

Legal Debt Margin Calculation for Fiscal Year 2010

Assessed value	\$ 743,257
Debt limit (7.5% of total assessed value)	55,744
Debt applicable to limit:	
General obligation bonds	2,710
Less: Amount set aside for repayment of general obligation debt	(817)
Total net debt applicable to limit	1,893
Legal debt margin	\$ 53,851

N/A - Information not available.

Note: The City of Kelso is authorized to issue debt pursuant to the Acts of the State of Washington. With voter approval the City can issue debt up to 2.5 percent of the assessed valuation of taxable property within the City. Without a vote, the City can incur debt up to an amount equal to 1.5 percent of the assessed valuation. Further, voted indebtedness is permitted for water, artificial lights, and sewerage up to 2.5 percent of assessed valuation, with an additional 2.5 percent available for acquiring open space for park facilities. The combination of unlimited tax (voted) and limited tax (non-voted) general obligation debt for all purposes cannot exceed 7.5 percent of assessed valuation.

**City of Kelso  
Pledged-Revenue Coverage  
Last Ten Fiscal Years**

<b>Water/Sewer Revenue Bonds</b>						
<b>Fiscal Year</b>	<b>Water/Sewer Revenues<sup>1</sup></b>	<b>Less: Operating Expenses<sup>2</sup></b>	<b>Net Available Revenue</b>	<b>Debt Services<sup>3</sup></b>		<b>Coverage</b>
				<b>Principal</b>	<b>Interest</b>	
2002	5,360,135	4,373,984	986,151	170,000	121,413	3.38
2003	5,330,468	3,934,700	1,395,768	145,000	90,345	5.93
2004	5,307,950	4,508,903	799,047	155,000	84,367	3.34
2005	5,475,244	4,036,836	1,438,408	155,000	78,946	6.15
2006	5,925,889	4,936,770	989,119	165,000	73,014	4.16
2007	6,576,208	5,205,623	1,370,585	170,000	66,709	5.79
2008	6,701,592	5,101,568	1,600,024	255,000	79,839	4.78
2009	7,124,034	6,102,630	1,021,404	75,000	35,291	9.26
2010	7,256,265	5,871,745	1,384,520	80,000	33,454	12.20
2011	7,569,205	5,664,324	1,904,881	185,000	194,836	5.02

<sup>1</sup>Total revenues (including investment earnings) exclusive of capital recovery charges and capital grants.

<sup>2</sup>Total operating expenses exclusive of depreciation.

<sup>3</sup>Includes principal and interest of water/sewer revenue bonds only.

**City of Kelso  
Demographic and Economic Statistics  
Last Ten Fiscal Years**

<b>Fiscal Year</b>	<b>Population<sup>1</sup></b>	<b>Info available at County level only</b>			<b>School Enrollment<sup>4</sup></b>	<b>Metro/Area Unemployment Rates</b>
		<b>County Personal Income<sup>2</sup></b>	<b>Per Capita Personal Income<sup>2</sup></b>	<b>County Median Age<sup>3</sup></b>		
2002	11,770	2,396,750	25,413	37.39	5,293	10.7%
2003	11,830	2,413,754	25,562	37.79	5,274	10.0%
2004	11,800	2,474,470	25,931	38.14	5,205	8.5%
2005	11,820	2,579,236	26,767	38.48	5,245	7.2%
2006	11,840	2,741,307	27,703	38.67	5,174	6.5%
2007	11,840	2,933,223	29,170	38.82	4,921	6.3%
2008	11,900	3,015,993	29,703	38.99	5,089	8.2%
2009	11,840	3,146,526	30,859	39.25	5,022	13.4%
2010	11,780	3,304,488	32,249	39.63	5,034	13.0%
2011	11,920	N/A	N/A	40.63	4,970	12.1%

N/A - information not available.

<sup>1</sup>Source: Office of Financial Management

<sup>2</sup>Source: U.S. Department of Commerce, Bureau of Economic Analysis

<sup>4</sup>Source: Kelso School District

<sup>5</sup>Source: Bureau of Labor Statistics

**City of Kelso  
Principal Employers  
Current Year and Nine Years Ago**

Employer	2010*			2002		
	Employees	Rank	Percentage of Total County Employment	Employees	Rank	Percentage of Total County Employment
Peace Health/St Johns Medical Center	1,919	1	5.05%	1,634	2	4.21%
Weyerhaeuser	1,587	2	4.18%	1,332	3	3.72%
JH Kelly	1,200	3	3.16%	1,200	4	3.90%
Longview Fibre Co.	1,078	4	2.84%	1,687	1	4.95%
Longview School District	800	5	2.11%	974	5	2.37%
Poster Farms	707	6	1.86%	900	6	2.34%
Lower Columbia College	469	7	1.23%	776	7	1.97%
Cowlitz County	539	8	1.42%	575	9	1.47%
Safeway, Inc.	420	9	1.11%			
Wal-Mart	380	10	1.00%			
Kelso School District				625	8	1.60%
Norpac				520	10	1.33%
Total	<u>9,099</u>		<u>23.94%</u>	<u>10,223</u>		<u>27.87%</u>

Note - Principal employer information is available on a county-wide basis only.

Source: Kelso/Longview Chamber of Commerce, Washington State Employment Security Department,  
and Cowlitz/Wahkiakum Council of Governments

**City of Kelso**  
**Full-time Equivalent City Government Employees by Function**  
**Last Ten Fiscal Years**

<b>Function</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
General Government						
Community Development	4	5	5.0	5.0	5.0	2.3
Finance	8	8	8.0	8.0	7.0	7.0
City Attorney	2	1.5	1.0	1.0	1.0	0.3
Admin.	2	1.5	1.9	2.0	2.0	1.8
Engineering	7	6	8.0	6.9	6.1	6.1
Public Safety						
Police						
Officers	29	28	31.4	29.8	27.0	27.0
Civilians	4	4	3.4	3.4	3.4	3.4
Highways & Streets						
Maintenance	2	2	2.5	1.4	1.0	0.0
Traffic	2	2	2.4	2.5	1.5	1.3
Culture and recreation	8	7	8.9	7.1	6.0	6.0
Water	8	7	8.1	8.7	7.5	7.5
Sewer	6	6	5.4	6.7	5.5	5.5
Drainage	2	2	2.2	3.0	3.0	3.0
<b>Total</b>	<b>84</b>	<b>80</b>	<b>88.2</b>	<b>85.6</b>	<b>76.0</b>	<b>71.1</b>

Source: City Payroll Department

The City converted to GASB 44 in 2006, historical data prior to 2006 is not available.

City of Kelso  
Operating Indicators by Function  
Last Ten Fiscal Years

Function	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	
Police										
Physical arrests	1,525	1,309	1,549	2,026	1,824	1,586	1,668	1,608	1,435	
Traffic violations	1,119	1,003	1,033	1,211	1,135	1,276	1,176	2,477	2,471	
Fire (contracted with Cowitz 2 Fire and Rescue)										
Number of calls answered	4,426	4,250	4,627	4,911	4,996	4,607	3,981	3,743	3,974	
Highways and streets										
Street resurfacing (linear feet)	3,629	-	10,439	17,536	6,600	5,647	5,150	35,957	21,056	
Sanitation (contracted with Waste Control Equipment Inc.)										
Residential refuse collected (tons monthly average)	550	569	567	533	573	562	519	495	507	
Residential recyclables collected (tons monthly average)	48	48	51	52	52	49	50	51	46	
Water										
Number of service connections	4,575	4,606	4,640	4,660	4,704	4,716	4,725	4,758	4,775	
Water main breaks	29	16	19	11	3	11	6	11		
Average daily consumption (millions of gallons)	2.5	2.4	2.3	2.4	2.2	2.3	2.3	2.2	2.2	
Sewer										
Number of service connections	3,868	3,906	3,930	3,954	3,961	3,970	3,938	3,943	3,931	
Average daily sewage treatment (millions of gallons)	2.4	2.3	2.8	3.0	2.6	2.6	2.4	2.6	2.7	

The City converted to GASB 34 in 2003, historical data prior to 2003 is not available.

Sources: Various City departments.

City of Kelso  
Capital Asset Statistics by Function  
Last Ten Fiscal Years

Function	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	8	8	8	8	8	8	8	8	8	8
Highways and streets										
Street (miles)	64	64	64	64	64	64	64	64	64	64
Streetslights	300	300	300	300	300	380	380	432	432	432
Traffic signals	12	12	12	12	12	12	12	13	13	13
Culture and recreation										
Libraries	1	1	1	1	1	1	1	1	1	1
Park acreage	46	46	50	50	50	50	50	50	50	50
Swimming pools	1	1	-	-	-	-	-	-	-	-
Water										
Water mains (miles)	72.39	72.39	72.71	72.99	73.00	73.00	73.00	73.00	73.00	73.00
Fire hydrants	602	603	604	605	605	550	550	550	554	554
Maximum daily capacity (millions of gallons)	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60
Sewer										
Sanitary sewers (miles)	54.93	54.93	54.99	55.06	52.00	52.00	52.00	56.00	56.00	56.00
Storm sewers (miles)	55	55	55	55	55	55	55	55	55	55
Maximum daily treatment capacity (millions of gallons)	26	26	26	26	26	26	26	26	26	26

The City converted to GASB 34 in 2003, historical data prior to 2003 is not available.

Sources: Various City departments.